

OFFICE OF THE STATE TREASURER
MEMORANDUM



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

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

DATE: June 3, 2015

SUBJECT: Sudan, Iran and MacBride

The purpose of this memo is to report on the status of our Sudan and Iran 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

No additional direct engagement was undertaken in the past year. Unfortunately, the conflict in Sudan grinds on, with little change or improvement. The additional complicating factor at this time is the development of mining interests, particularly gold. As in other places in Africa, extraction of gold has led to conflict and reported human rights abuses. Our vendor, Eiris Conflict Risk Network, provided the following report:

Increased investment in Sudan's mining industry has produced both high yields and conflict. Having become one of the world's top twenty gold producers in 2012, Sudan is on target to produce 80 metric tons of gold in 2015, up from 71 metric tons in 2014. And the Sudan Ministry of Minerals forecasts 100 metric tons in 2016. However, the government's emphasis on corporate investment provides little gain to local communities.

Nine Russian companies are currently mining in Sudan and the French look ready to expand their operations significantly. In May 2015, the Minister of Minerals and other prominent Sudanese authorities participated in the Sudanese-French Economic Forum, where they discussed investment in Sudan's mining industries. Gulf countries, especially the UAE, are also expected to increase their investments. And Sudan invited Azerbaijani businesses to invest in its energy and gold production industries.

However, the human and environmental costs of this investment are staggering. Though the Sudanese mines are expected to provide employment for up to 250,000 miners, these jobs do not go to local residents. They go to workers from Chad, the Central African Republic, Nigeria, Niger, Libya, Syria and Jordan. Sudan has

repeatedly refused to acknowledge reports of human rights abuses and unethical mining of minerals such as gold in the country.

At the beginning of the year, new legislation required licensing of artisanal mining, putting many poor miners out of business without necessarily increasing health, safety and environmental standards. Last month, the Ministry of Minerals temporarily suspended the issuance of these licenses, which account for 90% of the gold produced, citing environmental concerns. Chemicals used in these operations, such as mercury and cyanide enter the water system, contaminating streams and ground water.

In late April, a gold mine in the Jebel Amer region in Darfur collapsed and killed six people, trapping many others underground. Activists assert that the collapse was due to the government's neglect of precautions and safety measures. Many rival ethnic groups are also fighting over control of specific mining areas. The leader of the Janjaweed militia, Musa Hilal, is reported to oversee gold production in the Jebel Amer region despite the asset-freeze sanction placed on him by the UN ten years ago.

Despite sanctions and revelations of exploitation of workers in these mines, international buyers continue to purchase gold from Sudan. A New York Times op-ed in February called on international banks, gold refiners and associations to flag Sudanese gold and initiate audits to trace its mine of origin to ensure that it is not "conflict gold," fueling war crimes in Darfur. This practical suggestion will only get more difficult as the Sudanese Government continues to restrict outside access to Darfur and other conflict areas. As part of that policy, the government is pressuring the UN-African Union Mission in Darfur (UNAMID) to leave when its mandate ends in July 2015, raising fears that violence will only increase.

Clearly, in addition to oil production, mineral extraction is an area of concern going forward, which will require monitoring.

The CRPTF's **Sudan Restricted Company List (rev. 09/2013)** is attached as **Exhibit A**.

IRAN

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 2015. 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 at this time to accommodate the changes.

While Iran has been allowed to sell some oil, the GAO Report, GAO-15-258R Iranian Commercial Activities, issued by the U.S. Governmental Accountability Office on January 13, 2015, 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.

Negotiations over Iran's nuclear program are ongoing, and another deadline of June 30 looms. The issue of access to sites is the main sticking point for the U.S. and the speed of sanction relief is the issue for the Iranians. However, there is clearly interest in pursuing business with Iran, particularly among European and Asian companies should a deal be reached on the Iran's nuclear program.

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

MACBRIDE

The current **MACBRIDE RESTRICTED COMPANY LIST** (rev. 01/2014) is attached hereto as **Exhibit C**. There were no additions or deletions.

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, NamFatt Corp. and PECD Group.

EXHIBIT B

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 C

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.