# CONFLICT RISK NETWORK

2010 / SUDAN COMPANY REPORT

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# Introduction

## ABOUT CONFLICT RISK NETWORK

Conflict Risk Network (CRN) is a network of institutional investors, financial service providers, and related stakeholders calling on corporate actors to fulfill their responsibility to respect human rights and to take steps that support peace and stability in areas affected by genocide and mass atrocities. CRN's goal is to increase such behavior by corporate actors, and thereby reduce conflict risk.

CRN is a project of the recently merged Save Darfur Coalition/Genocide Intervention Network (SDC/GI-NET). The two organizations merged on November 1, 2010 to create a more powerful voice dedicated to preventing and stopping large-scale, deliberate atrocities against civilians. In support of SDC/GI-NET's overall mission, CRN acts as an intermediary between the business and investment communities, engaging companies operating in SDC/GI-NET Areas of Concern, including Sudan. By coordinating and conducting its engagement on behalf of a network of financial institutions, CRN harnesses the collective weight of trillions in assets when encouraging corporate behavior that reduces conflict risk.

### WHAT IS CONFLICT RISK?

Areas affected by genocide and mass atrocities differ significantly from stable operating environments. They exhibit instability, unpredictable conditions, and contexts in which rights violations are ongoing, presenting companies with greater challenges in ensuring they do not infringe on human rights. Not only is it more difficult for companies to do no harm in such settings, but the failure to adhere to standard corporate responsibility practices carries the potential for heightened impacts on communities and on companies themselves. CRN uses "conflict risk" to summarize this increased difficulty in respecting human rights, and the potential for amplified impacts on both communities and companies.

## ABOUT THIS REPORT

CRN produces the Sudan Company Report in order to inform its investor network about corporate actors' exposure to conflict risk in Sudan. When companies and investors are able to understand what drives conflict and how to address it, they can not only mitigate the risks and negative impacts posed to and by their investments, but can play an important role in supporting peace and stability.

The Report is a culmination of research CRN conducts on the elements driving conflict; the companies most associated with these drivers; details on their business activities, relationships, and impacts; and steps companies have taken to respect human rights and support peace and stability.

## CRITERIA FOR INCLUSION IN THE SUDAN COMPANY REPORT

Within the universe of companies with Sudan-related operations, the question of exposure to conflict risk determines the scope of those included in the Sudan Company Report. CRN has reviewed information on hundreds of companies with Sudan-related business operations, and has concluded that the subset of companies listed in the Sudan Company Report have the greatest exposure to conflict risk and warrant further investigation and stakeholder engagement efforts.

Companies profiled in the Sudan Company Report include those in the oil, mineral extraction, power production, and defense sectors—industries identified in the targeted Sudan divestment legislative model. In addition to those companies, CRN includes actors in other sectors with exposure to conflict risk as determined by CRN research.

CRN assesses exposure to conflict risk first by identifying current factors contributing to or presenting a potential for conflict. This enables CRN to identify elements, such as a contested border near an oil concession, or land and resource disputes involving ethnic tensions, which may give rise to violent conflict. CRN then identifies the companies that are connected to these conflict drivers through actual and potential impacts resulting from business activities and relationships.

All companies included in this report have been contacted prior to its publication.

## REPORT CATEGORIES

Companies profiled in the Sudan Company Report are organized alphabetically, and are considered to have exposure to conflict risk in Sudan. Company headers at the beginning of each profile, as well as the Sudan Company List, a separate document accompanying the Report, provide categorizations relevant to the targeted Sudan divestment legislative model and CRN's engagement work. They are:

### CRN Classification

Within the CRN classification, companies are listed as either "Priority Engagement" or "Watch List." Companies in the "Watch List" category are those that CRN tracks as part of its systematic research process and which it may seek to engage during another reporting cycle, depending on exposure to conflict risk. The "Priority Engagement" classification indicates that CRN is currently spearheading coordinated efforts on behalf of participating institutions to hold dialogues with the company. CRN determines Priority Engagements based on a three-part inquiry:

**1. What are the conflict drivers?**
CRN conducts comprehensive, ongoing research into the factors contributing to conflict in SDC/GI-NET Areas of Concern. This enables CRN to identify elements, such as a contested border near an oil concession, or land and resource disputes involving ethnic tensions, which may give rise to violent conflict.

**2. Which corporate actors are associated with the conflict drivers?**
CRN identifies the companies connected to conflict drivers through actual and potential impacts resulting from business activities and relationships.

**3. Where can CRN engage most effectively?**
CRN's engagement efforts are strengthened by its large network of participating institutional stakeholders. Upon identifying conflict drivers and associated corporate actors, CRN examines which present the best opportunities for strategic engagement (i.e. where companies are likely to be responsive to shareholders and CRN, or where key relationships and expertise can be leveraged), and which hold the greatest interest for CRN participants.

### Targeted Sudan Divestment Legislative Model Category

Within this category, companies are classified either as "Scrutinized," "Substantial Action," "Inactive Business Operations," or "N/A." The first three categories correspond directly with terms in the targeted Sudan divestment legislative model. The latter, "N/A," indicates that a company does not fall under the targeted Sudan divestment legislative model. A company may be listed as "N/A" if it is a private enterprise, if it has Sudan-related activities relevant to CRN but not relevant under the targeted model (for example in the telecommunication or agricultural sectors), or if more information is required to determine whether it is implicated under the targeted model.

## CORPORATE STRUCTURE IN COMPANY PROFILES

The Sudan Company Report profiles companies based on the considerations described above, but also lists corporate structure relevant to investors.

Where a company with Sudan-related operations is itself publicly traded, its profile also lists vertical corporate structure (parents and subsidiaries), provided ownership stake in these relationships is greater than 50%. In this case, the company with Sudan-related operations is the primary company listed in the Report and other materials.

Where a company with Sudan-related operations is private, its profile lists its public vertical structure and its parent's vertical structure, provided the ownership stakes in these vertical relationships is greater than 50%. In this case, the public parent company is the primary company listed in the Report and other materials.

## INFORMATION INCLUDED IN THE COMPANY PROFILES

Information in each profile is organized under the following headings.

### Context Overview

This section provides context on each company's industry as well as a brief summary of the company's background.

### History of Sudan-Related Business Activities

This section provides details on each company's Sudan-related business operations.

### Potential Concerns and Risks

This section includes what CRN has identified as the most relevant concerns that arise in relation to a company's actual and potential impacts. Where available, information is included on companies' perspectives and mitigating steps they have taken.

### Activities Specific to Targeted Sudan Divestment Legislative Model

This section discusses information that has particular relevance for institutions implementing the targeted Sudan divestment legislative model. Information here includes details on companies' efforts to take "Substantial Action," as defined under the model; whether private companies plan to introduce publicly traded corporate structure, which could implicate them under the targeted model; and whether companies' projects may benefit "Marginalized Populations," as defined under the model.

### Engagement

This includes a brief summary of whether CRN has initiated or conducted dialogue with a company.

## Four-Step Due Diligence Process

CRN's approach is founded on the premise that companies have a responsibility to respect human rights, a charge captured in the Framework for Business and Human Rights developed by John Ruggie, the Special Representative of the United Nations Secretary-General on human rights and transnational corporations. In basic terms, the responsibility to respect means acting with due diligence to avoid infringing on the rights of others, and addressing adverse impacts that occur. The Framework has been accepted widely by companies, business associations, governments, and multilateral institutions, and represents a global standard of expected conduct acknowledged in virtually every soft-law instrument related to corporate responsibility.

As articulated by the Framework for Business and Human Rights, due diligence calls on companies to:

1. **Develop a human rights policy to guide corporate conduct;**
2. **Assess actual and potential impacts on human rights;**
3. **Integrate human rights policies and practices into operating procedures; and**
4. **Track and report performance.**

In its engagement with companies, CRN makes a baseline recommendation that they conduct due diligence as defined by the Framework for Business and Human Rights. The "Four-Step Due Diligence Process" section of each profile indicates company progress in this regard.

## Relevant Policies & Practices

This profile section discusses company policies and practices that may relate to their approach to addressing conflict risk in their Sudan-related operations. Company support for the Voluntary Principles on Security and Human Rights, for example, may indicate greater awareness of the need for human rights safeguards in company security arrangements in the extractive sector.

## CHANGES SINCE LAST REPORT

*Updates as of November 30, 2010*

### COMPANIES REMOVED FROM THE SUDAN COMPANY REPORT SINCE AUGUST 31, 2010:

**Essar Oil Limited:** Based on research, monitoring, and engagement with the company, it no longer appears that Essar Oil Limited (Essar Oil) has Sudan-related operations. The company was previously profiled in the Sudan Company Report due to its processing of Sudanese crude. A company representative confirmed to CRN in November 2010 that it took a parcel of Sudanese crude two years ago but has not done so since then. As relevant under the targeted Sudan divestment legislative model, Essar Oil had been classified under "Ongoing Engagement" (which corresponds with the current Sudan Company Report's category, "N/A"). The company has no relevant corporate structure affected by this removal.

**Kamaz Finans:** Kamaz Finans previously was listed as a wholly owned subsidiary of **Kamaz,** a company profiled in the Sudan Company Report due to its Sudan-related activities. Kamaz Finans issued bonds in the past, but its bonds have matured. It does not have Sudan-related activities independent of Kamaz, and is therefore being removed from the Sudan Company Report. As relevant under the targeted Sudan divestment legislative model, the company was categorized under Kamaz as being in "Ongoing Engagement" (which corresponds with the current Sudan Company Report's category, "N/A").

**Kunlun Energy Co. Ltd:** Kunlun Energy Co. Ltd. (Kunlun Energy) previously was listed as a majority owned, publicly traded subsidiary of **China National Petroleum Corporation (CNPC),** a company profiled in this report due to its Sudan-related activities. Recent research indicates that CNPC no longer holds a majority stake in Kunlun Energy. Kunlun Energy does not otherwise have Sudan-related business activities independent of CNPC, and is therefore being removed from the Sudan Company Report. As relevant under the targeted Sudan divestment legislative model, Kunlun Energy was categorized under CNPC as a "Highest Offender" (which corresponds with the targeted model's term, "Scrutinized").

**Schlumberger Technology Corporation:** Schlumberger Technology Corporation (Schlumberger Tech. Corp.) was listed previously as a wholly owned subsidiary of Schlumberger Ltd., a company profiled in the Sudan Company Report due to its Sudan-related activities. Schlumberger Tech. Corp. issued bonds in the past, but the company has called these bonds. It does not have Sudan-related activities independent of Schlumberger Ltd., and is therefore being removed from the Sudan Company Report. As relevant under the targeted Sudan divestment legislative model, the company was categorized under Schlumberger Ltd. as "Substantial Action."

**Seadrill Limited:** Based on research, monitoring, and communication with the company, it no longer appears that Seadrill Limited has Sudan-related operations. A company representative confirmed to CRN in November 2010 that it currently has no activities in Sudan. The company was previously profiled in the Sudan Company Report because it was executing a contract to conduct drilling activities in Block 15. As relevant to the targeted Sudan divestment legislative model, it was categorized as a "Highest Offender" (which corresponds with the targeted model's term, "Scrutinized"). The relevant corporate structure affected by this removal is **Scorpion Offshore Limited** (majority owned, publicly traded subsidiary).

## COMPANIES ADDED TO THE SUDAN COMPANY REPORT SINCE AUGUST 31, 2010:

**Chemoil Energy Limited:** Chemoil Energy Limited is being added as a majority owned, publicly traded subsidiary of **Glencore International AG,** a company profiled in the Sudan Company Report due to its Sudan-related activities. As relevant under the targeted Sudan divestment legislative model, the company is categorized under Glencore International AG as "Scrutinized."

**MTN Group and MTN Sudan:** Through MTN Sudan, its majority owned subsidiary, MTN Group is a major telecommunications provider in Sudan, with mobile phone infrastructure located throughout the country. As telecommunications firms, MTN Sudan and MTN Group do not fall under the targeted Sudan divestment legislative model. MTN Group is being added to the report as a "Priority Engagement" company as part of CRN's engagement efforts in advance of southern Sudan's 2011 referendum on independence.

**PTTEP Australia International Finance Proprietary Ltd:** This company is being added as a wholly owned subsidiary of **PTT Public Company Limited (PTT),** a company already profiled in the Sudan Company Report due to its Sudan-related activities. PTTEP Australia International Finance Proprietary Ltd has recently issued bonds. As relevant under the targeted Sudan divestment legislative model, the company is categorized under PTT as "Scrutinized."

**Smith International Incorporated:** This company is being added as a wholly owned subsidiary of Schlumberger Ltd., a company already profiled in the Sudan Company Report due to its Sudan-related activities. Recently acquired by Schlumberger Ltd., Smith International Inc. has issued bonds. As relevant under the targeted Sudan divestment legislative model, the company is categorized under Schlumberger Ltd. as "Substantial Action."

**Zain Group and Zain Sudan:** Through Zain Sudan, its wholly owned subsidiary, Zain Group is the largest telecommunications company in Sudan, with mobile phone infrastructure throughout the country. As telecommunications firms, Zain Group and Zain Sudan do not fall under the targeted Sudan divestment legislative model. Zain Group is being added to the report as a "Priority Engagement" company as part of CRN's engagement efforts in advance of southern Sudan's 2011 referendum on independence.

COMPANY

# ABDEL HADI ABDULLAH AL-QAHTANI & SONS GROUP OF COMPANIES (AL-QAHTANI & SONS)

| COUNTRY | SECTOR | CRN CLASSIFICATION |
| --- | --- | --- |
| **SAUDI ARABIA** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Abdel Hadi Abdullah Al-Qahtani & Sons Group of Companies (Al-Qahtani & Sons) is one of the largest private companies in Saudi Arabia.[3] The company holds a stake in the Block 12A oil concession in Sudan. As Al-Qahtani & Sons is not publicly traded, it does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In 2006, Al-Qahtani & Sons acquired a 33% stake in Block 12A, which extends from upper North Darfur to the Libyan border.[4] The block is operated by the

Greater Sahara consortium, comprised of Al-Qahtani & Sons, Yemen's Ansan Wikfs Investments Limited (Ansan Wikfs; 20%), Sudapet (20%), Hi-Tech Petroleum Group Co. Ltd (7%), Dindir Petroleum International (Dindir Petroleum; 15%) and All Africa Investment Corp (5%).[5] The companies paid U.S. $43 million to acquire drilling rights in Block 12A.[6] According to satellite photos commissioned by the UK-based non-governmental organization Global Witness, Block 12A was under exploration in late 2009 and early 2010.[7]

## POTENTIAL CONCERNS AND RISKS

### General potential for increasing instability and violence following anticipated southern secession in January 2011

There is a history of direct connections between the oil industry and conflict in Sudan. This is particularly true in the context of civil war between Sudan's north and south. It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence, and the oil industry and its infrastructure might be assets over which the north and south will battle.

### Risk of violence in association with oil exploration activities

Oil activities in Sudan have been associated with human rights abuses against populations living in concession areas, and there is a risk such abuses may be repeated, especially in the context of renewed conflict in Sudan. During the civil war fought between Sudan's north and south from 1983 to 2005, security forces associated with certain oil consortia were linked with numerous human rights violations, including forced displacement and violence against communities in project areas.

It appears that the Sudanese military has used force to secure concession areas in advance of Al-Qahtani's exploration activities in Block 12A.[8] In August 2008, Sudan Armed Forces launched major military operations against rebels in North Darfur, where foreign teams were reportedly engaged in exploration activities.[9]

This risk is additionally exacerbated by opposition of the rebel Justice and Equality Movement (JEM) to oil exploration in Darfur while the conflict is ongoing. As JEM has kidnapped oil workers in the past, this may increase the risk that Al-Qahtani's employees will be targeted by rebels operating throughout Darfur.

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[10] If Block 12A enters production, Al-Qahtani & Sons might be tied to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south. Such a revenue stream would be even more material to the Sudanese government in the case of southern secession, given that the north stands to lose 60% to 75% of its revenue in that scenario.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement (SPLM).[11]

Al-Qahtani & Sons' concession is in Sudan's north, and any associated revenue likely would not be subject to any revenue sharing agreement struck between the Government of Sudan and an independent south. Nevertheless, transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty and instability. Global Witness, a

UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[12]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As of November 2010, Al-Qahtani & Sons is not implicated under the targeted Sudan divestment legislative model because it is not publicly traded.

## ENGAGEMENT

CRN has sent regular inquiries since 2007 requesting dialogue and further information regarding Al-Qahtani & Sons' Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Al-Qahtani and Sons has not published a human rights policy or referenced human rights in its public materials.

### 2. Impact Assessments

No information is available on whether Al-Qahtani & Sons has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Al-Qahtani and Sons is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

Al-Qahtani & Sons is not a UNGC participant.

### EITI

Al-Qahtani & Sons is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

# NOTES: ABDEL HADI ABDULLAH AL-QAHTANI & SONS GROUP OF COMPANIES (AL-QAHTANI & SONS)

[1] Jeffrey Gettleman, "War in Sudan? Not Where the Oil Wealth Flows," New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

[2] "Sudan-Macroeconomic Policy," African Economic Outlook, August 3, 2010, at http://www.africaneconomicoutlook.org/en/countries/east-africa/sudan/#macro_economic_policy; Paul J. Sullivan and Natalie Nasrallah, "Improving Natural Resource Management in Sudan," p. 3, United States Institute of Peace, June 2010, at http://www.usip.org/resources/improving-natural-resource-management-in-sudan.

[3] "About Us," Abdel Hadi Abdullah Al-Qahtani & Sons Group of Companies website, at http://ahqsons.com/about.htm.

[4] Benoit Faucon, "China Discusses Darfur Oil-Hunt Aid," Wall Street Journal, July 9, 2008, at http://online.wsj.com/article/SB121555134507336947.html; "Maps and Reports about Blocks," Sudapet website, 2009, at http://www.spc.sd/en/statics_5.php.

[5] "Concession Map," Sudapet website, at http://www.sudapet.sd/concession_map.php.

[6] Edmund Sanders, "Search for Oil Raises the Stakes in Darfur," Los Angeles Times, March 8, 2007, at http://articles.latimes.com/2007/mar/03/world/fg-oil3.

[7] "Global Witness uncovers evidence of oil exploration in Darfur." Global Witness, June 3, 2010, at http://www.globalwitness.org/library/global-witness-uncovers-evidence-oil-exploration-darfur.

[8] "Sudan talks to Chinese firms for help in Darfur oil exploration," Sudan Tribune, July 9, 2008, at http://www.sudantribune.com/spip.php?article27781.

[9] Id. and Eric Reeves, "Khartoum's patterns of violence in Darfur, 2008," Sudan Tribune, September 14, 2008, at http://www.sudantribune.com/spip.php?article28608.

[10] Jeffrey Gettleman, "War in Sudan? Not Where the Oil Wealth Flows," New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

[11] "Sudan—Fuelling Mistrust: The Need for Transparency in Sudan's Oil Industry," p. 19, Global Witness, 2009, at http://www.globalwitness.org/library/fuelling-mistrust-need-transparency-sudans-oil-industry.

[12] "Fuelling Mistrust: The Need for Transparency in Sudan's Oil Industry," Global Witness, September 7, 2009, at http://www.globalwitness.org/library/oil-production-figures-underpinning-sudan%E2%80%99s-peace-agreement-don%E2%80%99t-add .

COMPANY

# AFRICA ENERGY

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| NIGERIA | OIL | WATCH LIST |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Africa Energy is a private oil and gas company headquartered in Nigeria. The company holds a 10% stake in Block 13.[3] As this concession is located offshore in northeastern Sudan, Africa Energy's activities do not present some of the risks associated with onshore blocks—particularly those in Darfur and southern Sudan—in terms of direct impacts on local populations' human rights and instability surrounding southern Sudan's 2011 referendum on secession. As the company is not publicly traded, it does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In 2007, Africa Energy secured its first contract in Sudan: a 10% stake in the offshore Block 13, operated by the Coral Petroleum Operating Company (CPOC). Africa Energy's partners in the block are China National Petroleum Corporation (CNPC) (40%); Sudapet, Sudan's state oil company (15%); Indonesia's state-owned PT Pertamina Persero (15%); Dindir Petroleum International of Sudan (10%); and Nigerian company Express Petroleum (10%).[4]

The CPOC partners were expected to complete exploration work within three years of their initial contract.[5] Sudapet states that Block 13 operators had acquired 2D marine seismic data, processed old data, and acquired gravity and magnetic surveys by the end of 2008. As of November 2010, Block 13 is reportedly still in the exploration stages, and at least two exploration wells have been drilled.[6]

## POTENTIAL CONCERNS AND RISKS

### Potential for increasing instability, violence, and insecurity following anticipated southern secession in January 2011

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. The Government of Sudan and the regional Government of South Sudan currently rely on oil for 63% and 98% of their respective revenues, and the regions have not yet stuck an agreement on sharing revenue in the case of southern secession, raising fears that the referendum and southern secession might trigger violence between the north and south. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

Because Africa Energy's oil concession is offshore and in northern Sudan, it does not face or present the risks associated with onshore blocks—particularly those in Darfur and southern Sudan—in terms of direct impacts on local populations' human rights and instability surrounding southern Sudan's 2011 referendum on secession.

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[7] If Block 13 enters production, Africa Energy might be tied to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with South Sudan. Such a revenue stream would be even more material to the Sudanese government in the case of southern secession, given that the north stands to lose 60% to 75% of its revenue in that scenario.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement.[8] Africa Energy's concession is in Sudan's north, and therefore any revenue produced likely would not be subject to a revenue sharing agreement with the south. Nevertheless, transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty, and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[9]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As of November 2010, Africa Energy is not implicated under the targeted Sudan divestment legislative model because it is not publicly traded.

## ENGAGEMENT

Since 2007, CRN has sent regular inquiries requesting dialogue and further information regarding Africa Energy's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Africa Energy has not published a human rights policy or referenced human rights in its public materials.

### 2. Impact Assessments

No information is available on whether Africa Energy has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Africa Energy is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

Africa Energy is not UNGC participant.

### EITI

Africa Energy is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

# NOTES: AFRICA ENERGY

[1] Jeffrey Gettleman, "War in Sudan? Not Where the Oil Wealth Flows," New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

[2] "Sudan-Macroeconomic Policy," African Economic Outlook, August 3, 2010, at http://www.africaneconomicoutlook.org/en/countries/east-africa/sudan/#macro_economic_policy; Paul J. Sullivan and Natalie Nasrallah, "Improving Natural Resource Management in Sudan," p. 3, United States Institute of Peace, June 2010, at http://www.usip.org/resources/improving-natural-resource-management-in-sudan.

[3] "CNPC in Sudan," p. 6, China National Petroleum Corporation, 2010, at http://www.cnpc.com.cn/resource/english/images1/pdf/CNPC%20in%20Sudan%202009%20Report/CNPC%20in%20Sudan.pdf.

[4] Id.

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COMPANY

# ALSTOM

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **FRANCE** | **POWER** | **PRIORITY ENGAGEMENT** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**ALSTOM POWER TRANSFORMERS** (wholly owned subsidiary with Sudan-related business operations)
**WUHAN BOILER CO.** (majority owned, publicly traded subsidiary)
**ALSTOM PROJECTS INDIA** (majority owned, publicly traded subsidiary)

## CONTEXT OVERVIEW

### Industry

Hydroelectric projects have the potential to provide a much-needed increase in power production in Sudan, where only 22% of the population had access to electricity as recently as five years ago. Hydroelectricity has been the focus of Sudan's efforts to expand power production in recent years, and the recently completed Merowe Dam has alone doubled Sudan's power capacity. Dam building or expansion projects are underway at the Roseires and Kajbar Dams, and feasibility studies are underway for a number of additional projects.

Given the nature of hydroelectric projects, they also have the potential to exacerbate an important driver of conflict in Sudan: access to land. Dam projects can cause direct displacement at project sites (often of poor or already marginalized groups),[1] alter river flows, and damage downstream ecosystems, wetlands and farmlands, all of which can heighten tensions surrounding access to and use of land.[2] Land is a scarce resource over which disputes erupt frequently. Numerous factors—including growth in human and livestock populations, unhealthy livestock, arboricultural and farming techniques, desertification, and population displacements—increase competition for land in Sudan. The increasing scarcity of land has aggravated tensions between pastoralists and agriculturalists, which are heightened by an influx of arms. Projects that affect this dynamic have the potential to fuel tensions and even trigger conflicts.

Some projects also run the risk of heightening ethnic tensions, an important factor in many conflicts in Sudan. The lack of transparency around dam projects and the government's heavy-handed approach towards resettlement has given rise to a perception by some affected communities that projects are related to efforts to "Arabize" the regions around the dams. In some cases, these perceptions have led to increased militarization among affected peoples.[3]

In addition to affecting these dynamics, hydropower projects have at times been associated directly with violence against local communities.[4] Upcoming developments in Sudan may present additional challenges for companies involved in hydropower projects. It is widely predicted that South Sudan will secede from the north following a referendum on independence that is scheduled for January 9, 2011. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

The potential for fall-out from the referendum process holds significant implications for the private sector in Sudan, as areas affected by conflict differ significantly from stable operating environments. They exhibit instability, unpredictable conditions, and contexts in which rights violations are ongoing, presenting companies with greater challenges in ensuring they do not infringe on human rights. Not only is it more difficult for companies to do no harm in such settings, but the failure to adhere to standard corporate responsibility practices carries the potential for heightened impacts on communities and on companies themselves.

### Company

Alstom, a French power and rail transport company, is a world leader in hydroelectric power generation. The company contracted in 2003 with the Ministry of Irrigation and Water Resources of the Republic of Sudan to supply the Merowe dam project with turbines and generators. Construction resulted in a number of human rights concerns including incidents of violence against protesters and mass displacement of local populations. All turbines were operational by April 2010, but Alstom has a warranty obligation that means its involvement continues to meet the definition of "Scrutinized Business Operations" under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Alstom's current business in Sudan is related to large-scale power generation, but it has had past involvement in projects related to Sudan's oil industry. In 2005, Alstom's wholly owned subsidiary, Alstom Power Transformers, supplied transformers to power substations in Muglad Basin, which includes blocks 1, 2, and 4, and Melut Basin, which includes blocks 3 and 7.[5]

In November 2003, Alstom received a U.S. $300 million contract from Sudan's Ministry of Irrigation and Water Resources for work on the Merowe dam project.[6] The contract included the supply of ten hydroelectric turbines and generators, each with a 125 megawatt (MW) output, as well as engineering, control systems, and commissioning for the project.[7]

The dam, located on the fourth cataract of the Nile River, was financed by various Arab funds and overseen by Sudan's Dam Implementation Unit (DIU), an autonomous government entity headed by a presidentially appointed government official.[8] All ten turbines are now operational, adding the dam's full capacity to the national power grid.[9] Though the project doubles Sudan's power generating capacity,[10] the arrangement of its power transmission lines suggests that it predominantly provides power to Khartoum, the surrounding area, and Port Sudan.[11] President al-Bashir celebrated the official completion of the Merowe Dam in May 2010 and acknowledged Alstom's contributions.[12] While Alstom may not have had a substantial physical presence on the ground in Sudan, it did provide essential components to the project. Alstom has ongoing warranty obligations for its turbines which keep it tied to the project.

## POTENTIAL CONCERNS AND RISKS

### Project's impacts are ongoing and could exacerbate or generate instability and conflict

Though the Merowe dam project is completed, its impacts may play a lasting role in generating and exacerbating a risk of conflict in the region. Local communities—in particular the Manasir tribe—were opposed to the project from the beginning. Now displaced from their traditional waterline homelands and disconnected from their former livelihoods, they have largely rejected as inadequate the compensation and desert resettlement sites offered by the government.[13]

Protests over resettlement, compensation, and displacement have led to clashes in which civilians have been killed and arrested by security forces, and ongoing tensions remain a concern. The DIU, an autonomous government body overseeing the dam, is said to have its own army and security force and to operate outside regular government processes.[14] In 2003, DIU security forces fired on civilian protestors, wounding five. In April 2006, they fired upon local protestors, resulting in three deaths and at least fifty injuries, and in May 2009, protests over the dam led to clashes between resettled farmers and local police. The farmers reportedly lost their crops for a third time due to water shortages and protested by blocking a highway. Police countered with live ammunition, severely injuring at least one demonstrator.[15]

Affected communities reportedly are increasingly militant, with some younger Manasir joining the Sudan People's Liberation Army, hundreds of others heading to Eritrea for military training, and some joining an armed group in eastern Sudan. Also heightening the risk of future conflict is a sense among some communities that the Merowe project was part of a larger government effort to eradicate their culture and "Arabize" the region.[16]

The dam has displaced or otherwise affected at least 70,000 people.[17] Some of its other negative effects include potential for reduced river valley groundwater recharge, blockage of fish migrations, and damaged downstream agriculture. In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards projects and companies.

During the dam's construction, the UN Special Rapporteur on Adequate Housing specifically cited Alstom (among other companies), and appealed to it to halt its activities until a full and impartial assessment of the impact on the human rights of the local population could be completed. In a response to the Special Rapporteur's statement, Alstom stated that it "has not done anything directly to promote and protect human rights as the Group is employed by the [DIU] who is ultimately responsible for such issues," and mentioned that Lahmeyer International, as the project's engineering consultant, was Alstom's "interface" in Sudan.[18]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Though the Merowe Dam has been completed and Alstom has stated it will not pursue additional contracts with the Sudanese government, its ongoing warranty obligations on the turbines means its involvement in the project continues to meet the definition of "Scrutinized Business Operations" under the targeted Sudan divestment legislative model.

## ENGAGEMENT

CRN engaged in dialogue with Alstom from December 2007 until September 2008 regarding the company's involvement in the Merowe dam project. Alstom resumed contact with CRN in August 2010 to discuss the current status of its Sudan-related activities. In September 2010, CRN presented steps the company might take to address stakeholder concerns. Discussions are ongoing as of November 2010.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Alstom does not have a standalone policy on human rights, though it provides information on its approach to human rights in its Code of Ethics, stating, "Alstom is attached to the spirit and the letter of laws governing human rights."[19] It is the company's policy to comply with the guiding principles of the Organization for Economic Cooperation and Development (OECD), the Universal Declaration of Human Rights, and the UN Global Compact. It is also a member of the World Business Council for Sustainable Development.

Alstom declares that its aims include a supplier base that, "care[s] about social conventions, namely working conditions and human rights, or who are in advance on social conditions."[20]

### 2. Impact Assessments

The company reports on its website that it conducts external assessments of its suppliers and sub-contractors on environmental, social and ethical criteria, as well as surveys on fundamental human rights, but it is not clear specifically how the company implements or acts on these efforts.[21]

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

Although Alstom submitted a report to the UNGC on its progress toward implementing the guidelines, including those on human rights, UNGC assessed the report as mentioning 0 of 15 items related to human rights. Publicly available sources do not show any other tracking of human rights performance.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

Alstom has been a UNGC participant since March 2008, and it notes its compliance with the UNGC's ten principles in its Code of Ethics. Representatives from Alstom also attended the launch of the Global Compact's Sudan Network in December 2008.[22]

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: ALSTOM

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COMPANY

# ANDRITZ AG

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **AUSTRIA** | **POWER** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**ANDRITZ HYDRO** (wholly owned subsidiary with Sudan-related business operations)

## CONTEXT OVERVIEW

### Industry

Hydroelectric projects have the potential to provide a much-needed increase in power production in Sudan, where only 22% of the population had access to electricity as recently as five years ago. Hydroelectricity has been the focus of Sudan's efforts to expand power production in recent years, and the recently completed Merowe Dam has alone doubled Sudan's power capacity. Dam building or expansion projects are underway at the Roseires and Kajbar dams, and feasibility studies are underway for a number of additional projects.

Given the nature of hydroelectric projects, they also have the potential to exacerbate an important driver of conflict in Sudan: access to land. Dam projects can cause direct displacement at project sites (often of poor or already marginalized groups),[1] alter river flows, and damage downstream ecosystems, wetlands, and farmlands, all of which can heighten tensions surrounding access to and use of land.[2] Land is a scarce resource over which disputes erupt frequently. Numerous factors—including growth in human and livestock populations, poor livestock, arboricultural and farming techniques, desertification, and population displacements—are increasing competition for land. The increasing scarcity of land has aggravated tensions between pastoralists and agriculturalists, which are heightened by an influx of arms. Projects that affect this dynamic have the potential to fuel tensions and even trigger conflicts.

Some projects also run the risk of heightening ethnic tensions, an important factor in many conflicts in Sudan. The lack of transparency around dam projects and the government's heavy-handed approach towards resettlement has given rise to a perception by some affected communities that projects are related to efforts to "Arabize" the regions around the dams. In some cases, these perceptions have led to increased militarization among affected peoples.[3]

In addition to affecting these dynamics, hydropower projects have at times been associated directly with violence against local communities.[4] Upcoming developments in Sudan may present additional challenges for companies involved in hydropower projects. It is widely predicted that South Sudan will secede from the north following a referendum on independence that is scheduled for January 9, 2011. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

The potential for fall-out from the referendum process holds significant implications for the private sector in Sudan, as areas affected by conflict differ significantly from stable operating environments. They exhibit instability, unpredictable conditions, and contexts in which rights violations are ongoing, presenting companies with greater challenges in ensuring they do not infringe on human rights. Not only is it more difficult for companies to do no harm in such settings, but the failure to adhere to standard corporate responsibility practices carries the potential for heightened impacts on communities and on companies themselves.

### Company

Austria-based Andritz AG (Andritz Group) is, a "market leader for customized plant, systems and services for the pulp and paper, hydropower, steel and other specialized industries." [5] Its subsidiary, Andritz HYDRO, is one of the world's leading suppliers of hydropower equipment. Andritz HYDRO, formerly known as VA TECH HYDRO, began business with Sudan's National Electricity Corporation (NEC) in 1968 and has since held a number of contracts for Jebel Aulia dam and the Roseires dam, which has been associated with the displacement of local communities.[6]

Andritz Group's involvement in hydropower projects in Sudan constitutes "Power Production Activities" under the targeted Sudan divestment legislative model. However, more information is required to determine if the company should be classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Andritz HYDRO (at the time VA TECH HYDRO) first supplied equipment for the Roseires Dam in 1968. Between 1985 and 1995, the company completed a series of service and rehabilitation projects on the dam. In 1998, the NEC awarded VA TECH HYDRO a contract to "comprehensively rehabilitate Roseires turbines 5, 6 and 7 with new turbine runner blades, improvements in turbine vibration level and general refurbishment work." [7]

In 2001, the company began a contract to rehabilitate Turbine 4 at the Roseires Dam, as well as the modernize turbine governors, control valves and oil pressure units.[8] Site work began in 2002 and has since been completed.[9]

The company obtained additional contracts to rehabilitate the Roseires power station in 2005 and 2006. Information from Andritz Group suggests that these projects were scheduled for completion in 2008 and 2009, respectively.[10] The NEC's website indicates that the Roseires dam rehabilitation has been completed.[11]

An April 2008 a company publication stated that it had been awarded another contract to refurbish six out of the seven turbines at the Roseires dam site.[12] A statement posted on the NEC website, which has since been removed, suggested that the company remained involved in rehabilitation efforts at the Roseires dam site as recently as October 2009.[13]

VA TECH HYDRO was acquired by the Andritz Group in 2006 and renamed Andritz HYDRO in 2009.[14] It is unclear whether the company is currently carrying out work on the Roseires Dam, but it appears likely that projects are ongoing. The company's work on the dam has spanned decades, and it has noted that its "continuous engagement at the Roseires power station has led to the formation of an informal partnership between NEC and VA TECH HYDRO." [15]

In addition to its work at Roseires, the company provided a power plant upgrade for the Jebel Aulia Dam in 2000.The €30 million contract transformed the Jebel Aulia Dam's purpose from primarily irrigation to a dual-use irrigation and hydropower facility, which could generate at least 30.[4] MW upon the its commissioning in 2004.[16] It is unclear if Andritz HYDRO has any ongoing contracts related to the project.

## POTENTIAL CONCERNS AND RISKS

### Potential impact of dam creation on the local environment

Hydro-electric projects in Sudan have historically been problematic. In addition to association with mass forced displacement and human rights violations, they have been linked to negative environmental impacts, including damage to downstream ecosystems and the destruction of nearby farmland.[17] These concerns require that dam and power-related projects be preceded by environmental impact assessments, as stipulated by Sudanese law, and by the World Commission on Dams.[18] CRN has not been able to find any information regarding an impact assessment for the Roseires dam heightening project.

### Potential for local and future instability, violence, and insecurity as a result of the Roseires Dam heightening project

Construction is currently underway to raise the Roseires Dam by ten meters , which will add more than four billion cubic meters of water to the reservoir[19] and displace approximately 22,000 people in twelve villages.[20] Construction for 12 residential cities for the displaced people has commenced, but results observed around a similar process related to the Merowe dam project raise concerns about the potential for instability and violence. Communities displaced by the Merowe Dam lost access to their traditional waterline homelands and former livelihoods, and largely rejected as inadequate the compensation and desert resettlement sites offered by the government.[21] Protests over resettlement, compensation, and displacement have led to clashes in which civilians have been killed and arrested by security forces, and affected communities are reportedly increasingly militant.[22] There are already concerns about the potential for increased health problems among people displaced by the Roseires project.[23]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Under the targeted Sudan divestment legislative model, a company involved in "Power Production Activities" is not considered "Scrutinized" if 75% of those activities include projects whose intent is to provide power or electricity to "Marginalized Populations" in Sudan. It is unclear whether "Marginalized Populations" will benefit from the Roseires dam project. While the company is on CRN's watchlist, until further details are available on the Roseires and Jebel Aulia dam projects, it will be unclear how Andritz Group should be classified under the targeted model.

## ENGAGEMENT

CRN sent an inquiry to Andritz HYDRO in January 2009 requesting dialogue and further information on the company's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Andritz Group pledges in its Code of Business Conduct and Ethics to respect human rights.[24] It does not refer to the Universal Declaration of Human Rights, or specify if the code applies to the company's subsidiaries.

### 2. Impact Assessments

No information is available on whether Andritz Group or Andritz HYDRO have conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

Neither Andritz Group nor Andritz HYDRO are UNGC participants.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: ANDRITZ AG

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COMPANY

# ANSAN WIKFS INVESTMENTS LIMITED

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **YEMEN** | **OIL AND MINING** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industries

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

Sudan is believed to have significant mineral resources, but it is not a significant mineral producer. The country's mining industry is relatively undeveloped,[3] with mining and quarrying operations responsible for only 0.2% of the national GDP.[4] This may change, given the northern government's increasing efforts to diversify its economy in advance of a January 2011 referendum on southern independence.

As part of its efforts to diversify, the northern government plans to more than double its gold production to 50 metric tons annually in 2011.[5] This would increase the overall importance of gold as a revenue stream for the Sudanese government, which is said to funnel much of its income to the military, which has been connected directly to violent conflict in Darfur and the civil war between Sudan's north and south. In addition to gold, Sudan also is reportedly rich in silver, lead, zinc, copper, iron, and barium. Sudan's Mining Minister stated in November 2010 that the country is experiencing "a rush" from foreign firms interested in gold exploration, including from Australia, Europe, and the United States, and that it had signed 45 agreements in 2010 and plans on signing 50 more in 2011.[6]

Unlike many of Sudan's oil-related projects, mining activities have thus far taken place primarily in largely unpopulated areas in the northeast and consequently are generally not associated with large scale displacement, security risks, and other negative impacts on local communities. Artisanal mining is an important source of income for some Sudanese, however, and fatal violence has broken out when the government has sought to remove miners from promising tracts allocated to foreign mining firms.[7] To achieve its ambitious increase in gold production, the government plans to tighten regulations on small-scale miners and expand concessions to foreign mining companies, creating potential for increased tension and similar conflicts in the future.[8]

The "rush" to sign more mining agreements may lead to activities in areas other than Sudan's northeast—for example the Nuba mountains—meaning displacement, potential for insecurity, and other negative local impacts could be of concern. Sudan's Mining Minister announced recently that new concessions will be offered in 2011 in the Darfur region, an area that has been the site of targeted violence against civilians (identified as genocide by the U.S. government), the deaths of at least 200,000 since 2003, and ongoing clashes between armed groups and government forces.

## Company

Ansan Wikfs Investment Limited (Ansan Wikfs) is a private oil and gas company based in Yemen. The company entered Sudan in 2006[9] and holds stakes in mining concessions and several oil blocks in the sensitive Darfur region and north-south border area.[10] As Ansan Wikfs is not publicly traded, it does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In 2006, Ansan Wikfs was awarded a 66% stake in Sudan's Block 17 through its subsidiary Ansan Wikfs (Sudan) Limited. The remaining 34% of the block is owned by state-controlled Sudapet. Block 17 was created from a portion of Block 6 that had been relinquished by China National Petroleum Corporation (CNPC).[11] It lies primarily in Darfur, but also extends into the neighboring states of Southern Kordofan and Bahr el Ghazal.

While the Block 17 concession contains two reported discoveries, it is not currently in production.[12] In October 2010, it was reported that exploration was underway in parts of South Darfur in and around Ansan Wikfs' concession.[13] The Sudanese oil ministry considers the block important in its effort to increase overall production by nearly 500,000 barrels per day.[14]

In 2006, Ansan Wikfs also acquired a 20% stake in Block 12A, which extends from upper North Darfur to the Libyan border.[15] The block is operated by the Greater Sahara consortium, comprised of Ansan Wikfs, Abdel Hadi Abdullah Al-Qahtani & Sons Group of Companies (Al-Qahtani & Sons; 33%), Sudan's Sudapet (20%), Sudan's Hi-Tech Petroleum Group Co. Ltd (7%), Dindir Petroleum International (Dindir Petroleum; 15%), and All Africa Investment Corp (5%).[16] The companies paid U.S. $43 million to acquire drilling rights.[17] According to satellite photos commissioned by the UK-based non-governmental organization Global Witness, Block 12A was under exploration in late 2009 and early 2010.[18]

In late September 2008, two years after signing a memorandum of understanding with Sudan's Geological Research Authority, Ansan Wikfs initiated a gold exploration agreement for blocks 6 and 13 located in Red Sea State.[19] It is unclear if the company is conducting gold exploration activities.

## POTENTIAL CONCERNS AND RISKS

### General insecurity and potential for increasing instability and violence following anticipated southern secession in January 2011

In August 2009, Sudanese government troops and the Justice and Equality Movement (JEM), a rebel group operating in the neighboring Darfur area, clashed in the Block 17 area.[20] Though there have not been reports connecting the fighting with Ansan Wikfs' oil-related activities, this clash exemplifies the risk surrounding operations in this area.

There is a history of direct connections between the oil industry and conflict in Sudan. This is particularly true in the context of civil war between Sudan's north and south. It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence, and that the oil industry and its infrastructure might be assets over which the north and south will battle. As Ansan Wikfs' Block 17 concession straddles the border between northern and southern Sudan, its concession may be exposure to violence.

### Risk of violence in association with oil exploration activities

Oil activities in southern Sudan have been associated with human rights abuses against populations living in concession areas, and there is a risk such abuses may be repeated, especially in the context of renewed conflict in Sudan. During the civil war fought between Sudan's north and south from 1983 to 2005, security forces associated with certain oil consortia were linked with numerous human rights violations, including forced displacement and violence against communities in project areas.

It appears that the Sudanese military has used force to secure concession areas in advance of Ansan Wikfs' exploration activities in Block 12A.[21] In August 2008, Sudan Armed Forces launched major military operations against rebels in North Darfur, where foreign teams were reportedly engaged in exploration activities.[22]

In October 2010, it was reported that areas in or near Ansan Wikfs' Block 17 concession were under exploration. According to the governor of South Darfur, local authorities had secured the area and ended rebel group activities there in advance of exploration.[23]

This risk is exacerbated by JEM opposition to oil exploration in Darfur while the conflict is ongoing. As JEM has kidnapped oil workers in the past, this may increase the risk that Ansan Wikfs' employees will be targeted by rebels operating throughout Darfur.

### Direct targeting of Ansan Wikfs assets

While there are no reports of attacks on Ansan Wikfs employees, attacks have affected operations in neighboring oil blocks. The Justice and Equality Movement (JEM), a Darfur rebel group, twice attacked Block 4 in 2007, kidnapping and later releasing five oilfield workers. After the kidnappings, JEM warned that it planned to continue targeting foreign oil firms,[24] and threatened future attacks in Kordofan, where a portion of Ansan Wikfs' Block 17 concession lies.[25]

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[26] If blocks 12A or 17 enter production, Ansan Wikfs might be tied to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south. The may also occur as Sudan's government seeks to increase its revenue from gold production, and to double it in 2011. Such streams would be even more material to the Sudanese government in the case of southern secession, given that the north stands to lose 60% to 75% of its revenue in that scenario.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement (SPLM).[27]

As Ansan Wikfs' concessions are in Sudan's north, associated revenue would likely not be subject to any revenue sharing agreement struck between the Government of Sudan and an independent south. Nevertheless, transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[28]

### Potential for insecurity and violence due to tension between artisanal mining and government efforts to expand operations

While Ansan Wikfs' concessions are located in a largely unpopulated area in the northeast where displacement, security risks, and other negative impacts on local communities are of less concern than they might be in other regions, its mining activities—particularly if they expand—may raise concerns.

There would be reason for concern if the company acquires concessions in other areas, given that artisanal mining is an important source of income for some Sudanese, and fatal violence has broken out when the government has sought to remove miners from promising tracts allocated to foreign mining firms.[29]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As of November 2010, Ansan Wikfs is not implicated under the targeted Sudan divestment legislative model because it is not publicly traded.

## ENGAGEMENT

CRN has sent regular inquiries since 2007 requesting dialogue and further information regarding Ansan Wikfs' Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Ansan Wikfs has not published a human rights policy or referenced key human rights norms in its materials.

### 2. Impact Assessments

No information is available on whether Ansan Wikfs has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Ansan Wikfs is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

Ansan Wikfs is not a UNGC participant.

### EITI

Ansan Wikfs is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

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COMPANY

# APS ENGINEERING COMPANY ROMA S.P.A

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **ITALY** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

APS Engineering Company Roma S.p.A (APS), established in 1997, is an Italian engineering company with a large oil and gas division. It began work on oil-related projects in Sudan in 2005, and has supplied infrastructure to a consortium that has been associated with human rights abuses and environmental problems. APS is not publicly traded, and is therefore not considered "Scrutinized" under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

APS completed its first project in Sudan in 2005, when it provided six pumping stations to the Petrodar constortium for the Melut Basin Oil Development project.[3] In 2006, APS was awarded a contract to provide engineering, consulting, and project management for the Port Sudan Refinery project.[4] The contract was awarded jointly by the Government of Sudan and Petronas International Corp Limited, a wholly owned subsidiary of Petroliam Nasional Berhad (Petronas), Malaysia's state-owned oil company.[5] The refinery, which had a planned capacity of 150,000 barrels per day, was set to be operational by 2009.[6] However, plans have been shelved indefinitely as of October 2009.[7]

Reports from April 2010 indicate that APS conducted a feasibility study for a proposed petroleum refinery in southern Sudan in 2009.[8] A tender for investment in this refinery was released in May 2010 by the Akon Refinery Company Ltd (ARC). ARC is a joint venture company comprised of the Government of South Sudan's (GoSS) oil company Nile Petroleum Company (Nilepet) and Eyat Oilfield Service Co. Ltd. (Eyat). The refinery is to have a capacity of 50,000 barrels per day and the estimated cost of construction is U.S. $1.8 billion. It will be located at Akon in Warrap State and is to be completed in approximately three years.[9] APS has been appointed the "engineering consultancy company" to ARC for the tender and entire implementation of the project.[10]

The Akon refinery is expected to process crude oil brought in from oilfields in Block 5A in neighboring Unity State via a pipeline.[11] Specifically, it has been reported that the Thar Jath oilfield operated by Petronas would supply crude for the pipeline. It is unclear whether APS will play any part in the pipeline activities. There is also uncertainty surrounding the GoSS' ability to raise funds for this project given the instability in the region.[12]

## POTENTIAL CONCERNS AND RISKS

### Association with concession-related impacts

It is unclear whether APS has ongoing involvement with the Petrodar consortium, but its past involvement in projects there added value to and facilitated the functioning of a consortium with a history of abuses that is of particular concern given the risk of a return to conflict following South Sudan's anticipated secession in 2011. The company provided pumping stations the Melut Basin Oil Project belonging to Petrodar, a consortium whose exploration and development activities were linked—during the final phase of Sudan's civil war—with human rights abuses against local populations. These included government troops' and allied militias' destruction of villages in the concession area, the forcible displacement of the local population, and the degradation of agricultural lands.[13] The potential for violence and insecurity around the Petrodar consortium in the case of southern secession seems particularly acute, given that the consortium's oil fields straddle the border between Sudan's north and south.

In addition to these issues, oil projects in Sudan have affected the ability of local residents to access unpolluted water sources for personal and agricultural use. In the Petrodar area, roads built to service oil installations have shifted the direction of water flows, causing localized droughts and flooding.[14] In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards oil projects and companies.

### General potential for increasing insecurity and for the refinery project to raise tensions or be subject to attacks

APS' involvement in a refinery in southern Sudan's Warrap State could expose it to a number of risks. It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Human rights advocates, political leaders and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south, and experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

The construction of an oil refinery in the south could contribute to and raise tensions between northern and southern Sudan. Currently, southern Sudan relies on northern infrastructure for exporting and refining oil, and new southern infrastructure—especially absent a revenue sharing agreement—could threaten vital northern interests and access to revenue.

Past experience suggests oil infrastructure may be targeted should conflict break out. During Sudan's 1983-2005 civil war, the Government of Sudan and proxy forces used oil infrastructure to garrison areas of South Sudan and carry out offensive operations against local populations.[15] Some fear a return to such activities in the event conflict between the north and south reignites.

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[16]

APS may be linked indirectly with facilitating a key stream of revenue to the Sudanese government, given that it was involved in providing pumping stations for the Melut Basin Oil Project belonging to Petrodar. The Melut Basin's fields are some of the most productive in Sudan, with production in 2009 between 230,000 and 270,000 barrels per day.[17]

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty, and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[18]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

APS is not implicated under the targeted Sudan divestment legislative model because it is not publicly traded.

## ENGAGEMENT

CRN sent inquiries in 2007 and 2008 requesting dialogue and further information regarding APS' Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

APS has not published a human rights policy or referenced human rights s in its public materials.

### 2. Impact Assessments

No information is available on whether APS has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

APS is not UNGC participant.

### UN Global Compact

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: APS ENGINEERING COMPANY ROMA S.P.A

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COMPANY

# ARCADIA PETROLEUM

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **UNITED KINGDOM** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Arcadia Petroleum (Arcadia) is a United Kingdom-based, wholly owned subsidiary of Farahead Holdings Ltd.[3] The company sells crude oil products and oil derivatives throughout the world.[4] Arcadia purchases regular cargos of Sudanese crude oil on the international market. Though Arcadia does not appear to have a physical presence within Sudan, its transport of crude oil may assist the Sudanese government in generating revenue from its oil industry.

As the company is not publicly traded, Arcadia does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Arcadia has been involved in trading Sudanese oil for almost a decade. In August 2000, the company was awarded a marketing contract for Nile Blend crude by Sudapet, Sudan's state-owned oil company.[5] In 2005 Arcadia began competing for a contract to sell Dar Blend for Sudapet.[6]

While the length of the contract signed by the company in 2000 is unknown, there are numerous reports stating that Arcadia regularly has purchased tenders of Nile Blend from Sudapet and India's Oil and Natural Gas Corporation (ONGC) since 2008. That year Arcadia purchased at least three million barrels from these two issuers.[7] These purchases continued into 2009, when the company purchased at least 5.4 million barrels of Nile Blend, a majority of which came from Sudapet.[8]

Arcadia's purchases of Nile Blend continue in 2010. As of November, the company bought 4.6 million barrels from Sudapet,[9] as well as 1.8 million barrels from ONGC.[10]

## POTENTIAL CONCERNS AND RISKS

### Revenue stream

Arcadia does not have a presence on the ground in Sudan, so it is not associated directly with some of the industry's immediate risks and impacts such as displacement, kidnapping of workers, attacks on facilities, and environmental degradation. It is, however, associated with a revenue stream to the Sudanese government. Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[11] Through its purchases of Sudanese crude oil, Arcadia is tied to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Arcadia is not implicated under the targeted Sudan divestment legislative model because it is not publicly traded.

## ENGAGEMENT

Since 2007, CRN has sent regular inquiries to Arcadia requesting dialogue and further information on the company's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Arcadia has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether Arcadia has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

Arcadia is not UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

# NOTES: ARCADIA PETROLEUM

[1] Jeffrey Gettleman, "War in Sudan? Not Where the Oil Wealth Flows," New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

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COMPANY

# AREF ENERGY HOLDING COMPANY

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **KUWAIT** | **OIL AND MINING** | **PRIORITY ENGAGEMENT** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**HIGLEIG PETROLEUM SERVICES AND INVESTMENT CO. LTD.**

(majority owned subsidiary with Sudan-related business operations)

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

Sudan is believed to have significant mineral resources, but it is not a significant mineral producer. The country's mining industry is relatively underdeveloped,[3] with mining and quarrying operations responsible for only 0.2% of the national GDP.[4] This may change, given the northern government's increasing efforts to diversify its economy in advance of the January 2011 referendum on southern independence.

As part of its efforts to diversify, the northern government plans to more than double its gold production to 50 metric tons annually in 2011.[5] This would increase the overall importance of gold as a revenue stream for the Sudanese government.[6] In addition to gold, Sudan also is reportedly rich in silver, lead, zinc, copper, iron, and barium. Sudan's Mining Minister stated in November 2010 that the country is experiencing "a rush" from foreign firms interested in gold exploration, including from Australia, Europe, and the United States, and that it had signed 45 agreements in 2010 and plans on signing 50 more in 2011.[7]

Unlike many of Sudan's oil-related projects, mining activities have thus far taken place primarily in largely unpopulated areas in the northeast and consequently are generally not associated with large scale displacement, security risks, and other negative impacts on local communities. Artisanal mining is an important source of income for some Sudanese, however, and fatal violence has broken out when the government has sought to remove miners from promising tracts allocated to foreign mining firms.[8] To achieve its ambitious increase in gold production, the government plans to tighten regulations on small-scale miners and expand concessions to foreign mining companies, creating potential for increased tension and similar conflicts in the future.[9]

The "rush" to sign more mining agreements may lead to activities in areas other than Sudan's northeast—for example the Nuba mountains—meaning displacement, potential for insecurity, and other negative local impacts could be of concern. Sudan's Mining Minister announced recently that new concessions will be offered in 2011 in the Darfur region, an area that has been the site of targeted violence against civilians (identified as genocide by the U.S. government), the deaths of at least 200,000 since 2003, and ongoing clashes between armed groups and government forces.

## Company

AREF Energy Holding is a Kuwait-based investment company which holds a majority stake in private, Sudan-based Higleig Petroleum Services and Investment Co. Ltd (HPSIC).[10] HPSIC currently holds stakes in mining concessions and an oil block in Sudan's unstable north-south border area, and operates as a service provider to numerous oil and power companies in Sudan.[11] This involvement constitutes "Oil-Related" and "Mineral Extraction Activities" under the targeted Sudan divestment model, meaning AREF Energy Holding is classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In September 2006, AREF Investment Group, a Kuwait-based investment firm, purchased a 51% stake in Sudan's Higleig Petroleum Services and Investment Co. Ltd.[12] One year after purchasing HPSIC, AREF Investment Group formed a publically traded subsidiary, AREF Energy Holding.[13] It currently holds a minority stake in AREF Energy Holding,[14] to which it transferred its holdings in HPSIC. As of November 2010, AREF Energy Holding holds a 64% stake in HPSIC.[15]

HPSIC has held an 8% stake in the Advanced Petroleum Company (APCO) since October 2003.[16] APCO operates Sudan's Block C oil concession, which lies in South Darfur, Northern Bahr El Ghazal, South Kordofan, and Warrap states.[17]

APCO has conducted exploration activities in parts of Block C located in South Darfur States, which have resulted in the drilling of five dry wells.[18] While APCO does not currently appear to be engaged in exploration activities, recent statements suggest that exploration in the block may resume in the future. In July 2010, a Block C partner indicated plans are underway to review the block's exploration history in order to find hydrocarbons.[19]

HPSIC has served as a contractor or sub-contractor for, and provided numerous services to, multiple oil and power companies In Sudan. The company's current projects in the petroleum sector include mechanical and electrical field surface facilities work for the Greater Nile Petroleum Operating Company (GNPOC), as well as a power distribution project for the Petrodar Operating Company.[20]

In September 2010, the Sudanese government's Ministry of Mines signed an agreement with HPSIC, granting the company exploration rights to a mining concession in the country's northeastern Red Sea state.[21]

HPSIC also contracted with the Dams Implementation Unit (DIU)—the Sudanese government authority presiding over the Merowe dam construction project—to construct the since-completed Karima Nawa road and the Merowe dam internal road in January 2007.[22]

AREF Energy Holding's 2009 Annual Report reveals that it owns a 45% stake in the Sudan-incorporated Al Dindir Petroleum International Company Ltd. The annual report mentions that this company's activities are oil and gas technology and services.[23] CRN is seeking to ascertain whether this company is the same as or affiliated with Dindir Petroleum International—a company already covered in this report and believed to be a subsidiary of the Jordanian EDGO corporation.

## POTENTIAL CONCERNS AND RISKS

### General insecurity and potential for increasing instability and violence

There is a history of direct connections between the oil industry and conflict in Sudan. This is particularly true in the context of civil war between Sudan's north and south. It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence, and the oil industry and its infrastructure might be assets over which the north and south will battle. As HPSIC's Block C concession straddles the border between northern and southern Sudan, its concession area may be at particular risk of exposure to violence.

The area is already—and recently—insecure. In November 2010, the Sudan Armed Forces bombed the border area between South Darfur and Northern Bahr El Ghazal while targeting the Justice and Equality Movement (JEM), a rebel movement based in Darfur. The area overlaps with the APCO concession.[24]

### Risk of violence in association with oil exploration activities

Oil activities in southern Sudan have been associated with human rights abuses against populations living in concession areas, and there is a risk such abuses may be repeated, especially in the context of renewed conflict in Sudan. During the civil war fought between Sudan's north and south from 1983 to 2005, security forces associated with certain oil consortia were linked with numerous human rights violations, including forced displacement and violence against communities in project areas.

The Sudanese military previously has used force to secure exploration areas in Darfur. In August 2008, Sudan Armed Forces launched major military operations against rebels in North Darfur, where foreign teams were reportedly engaged in exploration activities.[25]

### Direct targeting of company assets

While there are no reports of attacks on HPSIC employees, attacks have affected operations in neighboring oil blocks. JEM twice attacked Block 4 in 2007, kidnapping and later releasing five oilfield workers. After the kidnappings, JEM warned that it planned to continue targeting foreign oil firms.[26]

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[27] If Block C enters production, AREF Energy Holding might be tied to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south. The may also occur as Sudan's government seeks to increase its revenue from gold production, and to double it in 2011. Such streams would be even more material to the Sudanese government in the case of southern secession, given that the north stands to lose 60% to 75% of its revenue in that scenario.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement (SPLM).[28]

As HPSIC's concession straddles the boundary between Sudan's north and south, any revenue it produced likely would be subject to a revenue sharing agreement struck between the Government of Sudan and an independent south. Transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[29]

### Potential for insecurity and violence due to tension between artisanal mining and government efforts to expand operations

HPSIC's mining concessions are located in a largely unpopulated area in the northeast where displacement, security risks, and other negative impacts on local communities are of less concern than they might be in other regions. There would be reason for concern, however, if the company acquired concessions in other areas, given that artisanal mining is an important source of income for some Sudanese, and fatal violence has broken out when the government has sought to remove miners from promising tracts allocated to foreign mining firms.[30]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Due to its holdings in HPSIC, which conducts "Mineral Extraction Activities" and is involved in "Oil-Related Activities," AREF Energy Holding is considered to "Scrutinized" under the targeted Sudan divestment legislative model.

## ENGAGEMENT

CRN has sent regular inquiries since 2007 requesting dialogue and further information regarding AREF Energy Holding's Sudan-related operations. Most recently, CRN reached out to AREF in October 2010 to discuss issues of security, revenue transparency and the upcoming referendum on southern independence scheduled for January 2011 as part of a CRN priority engagement effort. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

AREF Energy Holding has not published a human rights policy or referenced key human rights norms in its materials.

### 2. Impact Assessments

No information is available on whether AREF Energy Holding has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

AREF Energy Holding is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

AREF Energy Holding is not a UNGC participant.

### EITI

AREF Energy Holding is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

# NOTES: AREF ENERGY HOLDING COMPANY

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[12] “Kuwait’s Aref Buys 51% of Sudan’s Higleig Oil Services,” Reuters, posted on Sudan Tribune, September 12, 2006, at http://www.sudantribune.com/spip.php?article17547.

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COMPANY

# ASCOM GROUP SA

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **MOLDOVA** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Ascom S.A. (Ascom) is a Moldova-based petroleum exploration, trading and services firm.[3] In June 2005, Ascom signed an oil production sharing agreement with the Government of South Sudan (GoSS).[4]

The company's involvement in the country's oil industry expose it to a variety of risks, including the environmental and social risks associated with oil exploration, insecurity in local concession areas, and potential increases in insecurity and violence linked to the 2011 self-determination referendum.

As the company is not publicly traded, Ascom does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In June 2005, the GoSS signed a production sharing agreement with a five year initial exploratory period for Block 5B with Ascom. The Block 5B concession was originally granted to the Petronas-led White Nile Petroleum Operating Company consortium (WNPOC-2) by the Government of Sudan in 2001.[5] Sudan's National Petroleum Commission (NPC) clarified the status of Block 5B in June 2007. It generally supported Petronas' claim to the block, but recommended that Ascom be included in the consortium.[6]

In January 2008, after Petronas agreed to allow Ascom to maintain partial ownership, GoSS gave it permission to begin exploration of the block.[7] Exploration commenced in February 2008 and by May 2009, WNPOC had drilled three dry wells as part of a scheduled four well program.[8] Ascom also drilled three wells in its 20,000 square km portion of the concession.[9] During this period Ascom conducted topographical surveys, mapping, seismic profiling and significant infrastructure development.[10]

A report from February 2009 notes that a company in Uganda had secured a land-drilling rig that had been used by Ascom in Sudan.[11] It is unclear how many rigs Ascom has, or is deploying in Sudan, but this may suggest its drilling activity was at least temporarily concluded in February 2009. In August 2009 Ascom became the sole operator of Block 5B after the WNPOC-2 consortium relinquished its stake following failed exploratory wells.[12] Ascom extended its exploration period for another two and a half years in June 2010. As of November, no new exploratory wells have been drilled or oil discovered, but Ascom is reviewing all of its seismic and geophysical data in preparation for further exploration.[13]

## POTENTIAL CONCERNS AND RISKS

### General potential for increasing instability and violence following anticipated southern secession in January 2011

There is a history of direct connections between the oil industry and conflict in Sudan. This is particularly true in the context of civil war between Sudan's north and south. It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence, and the oil industry and its infrastructure have been identified as assets over which the north and south are likely to battle.

Portions of Block 5B are located in Jonglei State, which experienced a spike in armed conflict during 2009. In September 2009, it was reported that Ascom was exploring near Wernyol, Jonglei State, where armed attacks had recently killed or injured a hundred or more people.[14] Many of these clashes stemmed from disputes over cattle and resulted in at least 1,800 deaths in 2009.[15] By July 2009, the United Nations Mission in Sudan (UNMIS) had acknowledged "... clear grounds for concern about the security situation" in areas within or adjacent to Block 5B, including the city of Malakal, eastern Jonglei State and the Sobat River corridor.[16]

Intertribal violence in Jonglei State continues in 2010, with at least 10,000 residents displaced in January and February 2010.[17] At least some of this violence appears to have occurred within Block 5B.[18]

### Impacts of exploration activities on local populations

Oil activities in southern Sudan have been associated with human rights abuses against populations living in concession areas, and there is a risk such abuses may be repeated, especially in the context of renewed conflict in Sudan. During the civil war fought between Sudan's north and south from 1983 to 2005, security forces associated with certain oil consortia were linked with numerous human rights violations, including forced displacement and violence against communities in project areas. The potential for the return of major conflict between Sudan's north and south raises concerns about a return to this kind of violence and the potential for it to occur in Ascom's concession areas. Given recent insecurity in the Jonglei region and potential insecurity following the 2011 referendum, there is also the possibility that exploration activities will require the presence or use of security forces, which have in the past been associated with human rights abuses.

Additionally, Block 5B is located within the Sudd, which at 30,000 km is the world's largest freshwater wetland. This raises some serious environmental concerns given the environmental contamination linked with oil exploration and production elsewhere in southern Sudan, particularly in neighboring Block 5A.[19] There the WNPOC-1 consortium has been accused of contaminating the local water supply, affecting over 300,000 people in Unity State, as well as spreading disease to cattle and threatening the wetlands.[20]

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[21] Ascom's operations in Sudan's oil industry, may directly tie the company to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in the Darfur region or in a potential conflict with Sudan's south.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement (SPLM).[22]

As Block 5B is located in southern Sudan, it is reliant on northern infrastructure for export, meaning associated revenue would likely be subject to any revenue sharing agreement struck between the Government of Sudan and and independent south. Transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[23]

In the run-up to the referendum, a senior southern minister revealed that an independent South Sudan would review oil deals struck between the Khartoum government and foreign firms during the 1983-2005 civil war. The minister made clear that South Sudan would respect existing oil contracts and that southern independence would not necessarily result in their cancellation, but that the GoSS is concerned about unreasonable profits reaped by foreign firms as a result of contracts being negotiated at prices far below current market prices for oil. GoSS is also concerned about companies' lack of attention to communities located around oil wells. According to the minister, some oil companies will be requested to "give way for newcomers" if the south's review of contracts shows that they do not meet the south's minimum standards.[24] It is unclear whether Ascom's contract would be one of those subject to review given that GoSS appears to have been involved in the company's entry into Sudan's petroleum sector.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As the company is not publicly traded, Ascom does not fall under the targeted Sudan divestment legislative model.

## ENGAGEMENT

CRN sent inquiries to Ascom in 2007 and 2008 requesting dialogue and further information regarding the company's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Ascom has not published a human rights policy or referenced human rights in its public materials.

### 2. Impact Assessments

Ascom reports that it conducted environmental impact assessments (EIAs) on all exploration activities.[25] There is no information available on the company conducting human rights impact assessments for its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Ascom is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

Ascom is not UNGC participant.

### EITI

Ascom is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

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COMPANY

# ATLAS COPCO AB

| COUNTRY | SECTOR | CRN Classification |
|---|---|---|
| **SWEDEN** | **MINING** | **PRIORITY ENGAGEMENT** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**ATLAS COPCO (INDIA) LTD.** (majority owned, publicly traded subsidiary)

## CONTEXT OVERVIEW

### Industry

Sudan is believed to have significant mineral resources, but it is not a significant mineral producer. The country's mining industry is relatively underdeveloped,[1] with mining and quarrying operations responsible for only 0.2% of the national GDP.[2]

This may change, given the northern government's increasing efforts to diversify its economy in advance of a January 2011 referendum on southern independence. It is widely predicted that southern Sudan will vote to secede from the north in 2011, a scenario which presents the north with the possibility of losing a great percentage of its most important source of revenue, oil. Southern Sudan holds an estimated 85% of the country's oil, which provides the north with 63% of its revenue and 15.5% of its GDP.[3]

As part of its efforts to diversify, the northern government plans to more than double its gold production to 50 metric tons annually in 2011.[4] This would increase the overall importance of gold as a revenue stream for the Sudanese government, which is said to funnel much of its income to the military, which has been connected directly to violent conflict in Darfur and a civil war between Sudan's north and south that resulted in two million deaths.[5] In addition to gold, Sudan is also reportedly rich in silver, lead, zinc, copper, iron, and barium. Sudan's Mining Minister stated in November 2010 that the country is experiencing "a rush" from foreign firms interested in gold exploration, including from Australia, Europe, and the United States, and that it had signed 45 agreements in 2010 and plans on signing 50 in 2011.[6]

Unlike many of Sudan's oil-related projects, mining activities have thus far taken place primarily in largely unpopulated areas in the northeast. Though displacement, security, and impacts on local communities have not so far been of concern as they are with oil projects, artisanal mining is an important source of income for some Sudanese, and fatal violence has broken out when the government has sought to remove miners from promising tracts allocated to foreign mining firms.[7] To achieve its ambitious increase in gold production, the government plans to tighten regulations on small-scale miners, and expand concessions to foreign mining companies, creating potential for increased tension and similar conflicts in the future.[8]

The "rush" to sign more mining agreements may lead to activities in areas other than Sudan's northeast—for example the Nuba mountains—meaning displacement, security, and local impacts could be of concern. Sudan's Mining Minister announced recently that new concessions will be offered in 2011 in the Darfur region, an area that has been the site of targeted violence against civilians (named genocide by the U.S. government), the deaths of at least 200,000 since

2003, and ongoing clashes between armed groups and government forces.

### Company

Sweden-based Atlas Copco AB (Atlas Copco) is a global provider of industrial equipment, including compressed air and gas equipment, generators, and construction and mining equipment.[9] The company has stated to CRN that it sells air compressors and construction and mining equipment to a distributor in Sudan.[10]

Sales of mining equipment to Sudan are considered "Mineral Extraction Activities" under the targeted Sudan divestment legislative model. However, more information is required to determine whether Atlas Copco should be classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Atlas Copco has been involved in Sudan since at least 2007. During a dialogue with CRN's predecessor organization, Atlas Copco explained that its operations in Sudan concerned the sale of air compressors and construction and mining equipment to a local Sudanese distributor.[11] According to Atlas Copco, the company's business in Sudan was estimated at 50% air compressor sales and 50% mining and construction equipment.[12]

## POTENTIAL CONCERNS AND RISKS

### General potential for instability and violence in more populated areas and as a result of government efforts to expand mining operations

While most mining activities take place in a largely unpopulated area in the northeast where displacement, potential for insecurity, and impacts on local communities are of less concern than they might be in other regions, the government's efforts to expand mining operations might raise these concerns.

Artisanal mining is an important source of income for some Sudanese, and fatal violence has broken out when the government has sought to remove miners from promising tracts allocated to foreign mining firms.[13] In 2010, at least five people died in clashes in northern Sudan's Gabgaba district after the Sudanese government awarded a Moroccan mining company exclusive rights to an area believed to be laden with gold.[14]

As a seller of equipment (as opposed to an actor operating a consortium or conducting exploration), Atlas Copco's association with these concerns are less direct. It could, however, be seen as facilitating and enabling operations linked with detrimental impacts and other concerns above.

### Revenue stream supporting government capacity for violence

In the event of South Sudan's secession, the Government of Sudan stands to lose 60% to 75% of its revenue. As part of a strategy to diversify its revenue stream, the government has placed an increased emphasis on its output of gold ore, hoping to double its annual production by 2012.[15] As Sudan's government seeks to increase its revenue from gold production, Atlas Copco might be tied to an increasingly significant revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Facilitating mining activities, including by providing supplies and services, constitutes "Mineral Extraction Activities" under the targeted Sudan divestment legislative model. However, more information is required on the current status of Atlas Copco's activities in order to determine whether it should be classified as "Scrutinized."

## ENGAGEMENT

Following an inquiry, Atlas Copco provided CRN with limited information regarding its Sudan-related business in August and September 2007, but cited Stockholm stock exchange rules and declined to discuss details. In May 2008, CRN met with Atlas Copco in Sweden to discuss its equipment sales. The company was not able to provide information about the end-use of its equipment. Most recently, CRN reached out to Atlas Copco in October 2010 to discuss issues of security, revenue transparency and the upcoming referendum on southern independence scheduled for January 2011 as part of a CRN priority engagement effort.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Atlas Copco does not have a stand-alone human rights policy. However, it states that its Business Code of Practice is built on UNGC principles and other international norms of behavior, including the Universal Declaration of Human Rights, the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, and the Organization for Economic Co-operation and Development's Guidelines for Multinational Enterprises.[16]

The Business Code of Practice expresses the company's support for fundamental human rights as well as the respect of these rights in regard to the company's global operations.[17]

### 2. Impact Assessments

No information is available on whether Atlas Copco has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

Atlas Copco publishes its Business Code of Practice in The Way We Do Things, an internal database accessible to all employees through its corporate intranet.[18]

Through the company's Circles program, Atlas Copco provides mandatory training for all new employees, which includes training on the company's Business Code of Practice. In 2009, approximately 80% of the company's workforce received this training at the local level. The company's corporate responsibility training materials for worldwide management also include cases covering human rights. Atlas Copco's division management received human rights training from Amnesty International in 2009.[19]

### 4. Human Rights Tracking and Reporting

Atlas Copco aligns its activities with the GRI Index guidelines on human rights in the company its Sustainability Report.[20]

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

Atlas Copco has been a UNGC participant since December 2008. The company states that its Business Code of Practice and sustainability programs are in line with the ten principles of the UNGC.[21]

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

Atlas Copco's Board of Directors is responsible for approving the company's Business Code of Practice. Organized beneath the Board of Directors, the company's Group Management is responsible for the policies set forth in the Business Code of Practice.[22]

Group management consists of senior Atlas Copco staff, including the company's President and Chief Executive Officer, officials from the company's three main business areas, and other senior Vice Presidents.[23]

## NOTES: ATLAS COPCO AB

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COMPANY

# AVICHINA INDUSTRY & TECHNOLOGY LTD

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **CHINA** | **MILITARY EQUIPMENT** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**HARBIN DONGAN AUTO ENGINE CO.** (majority owned, publicly traded subsidiary)

**HAFEI AVIATION INDUSTRY CO.** (majority owned, publicly traded subsidiary)

## CONTEXT OVERVIEW

### Industry

Sudan has been host to numerous conflicts featuring large levels of violence targeted against civilians. Since 2003, the Sudanese military and proxy militias have conducted a campaign in Darfur—characterized by the U.S. government as genocide—that has resulted in the deaths of at least 200,000 people. Twenty-two years of civil war between Sudan's north and south concluded in 2005 when the Government of Sudan and the Sudan People's Liberation Movement signed the Comprehensive Peace Agreement (CPA). That war led to the deaths of two million Sudanese.

It is widely predicted that southern Sudan will secede from the north following a January 2011 referendum on independence. Human rights advocates, political leaders and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

It is difficult for companies with arms-related business to do no harm in this context. In the event conflict erupts around the 2011 referendum, their products will play a central role in facilitating violence, increasing the potential for heightened impacts on civilians. Already, heightened tensions have led to troop buildup along north-south border regions and to increased weapons proliferation amongst civilians.[1]

While a United Nations embargo[2] prohibits the provision of military equipment to parties in Darfur, and U.S.[3] and European Union sanctions[4] restrict the trade of arms more generally, materials have repeatedly found their way to restricted areas.[5] Foreign actors have been important partners - military aircraft from Russia and China have been used in attacks in Darfur. China, Iran, Russia, Ukraine and Belarus are reported to be Sudan's main suppliers of small arms.[6]

Recent studies indicate that the transfer of arms to all parts of Sudan continues apace and is in some cases increasing, with patterns, actors and methods of distribution similar to those seen during the last civil war between the north and the south.[7]

### Company

AviChina Industry and Technology Company (AviChina) is the largest helicopter manufacturer in China, and one of the country's major aircraft manufacturers.[8] It has been listed on the main board of the Stock Exchange of Hong Kong Limited since October 2003.[9] There are reports that AviChina has been selling military aircraft to the Sudanese government since 2001. These products meet the definition of "Military Equipment" under the targeted Sudan divestment legislative model, and the company is therefore considered to have "Scrutinized Business Operations."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In May 2007, Amnesty International reported that AviChina delivered six K-8 military training/attack aircraft to the Sudanese Air Force, with a further six to follow.[10] Sino Defense confirmed that Sudan ordered 12 K-8s from Jiangxi Hongdu Aviation Industry Co. Ltd. (Hongdu Aviation),[11] which was majority-owned by AviChina at the time of purchase.[12] These jets could be used by the Sudanese Air Force "not only for training missions such as take-offs, landings, spin and night flights, but also for armed operations training." [13]

In addition to these sales, it has been reported that Harbin Dongan Auto Engine Company, a majority-held subsidiary of AviChina, performed repairs on Mi-8 helicopter engines for the Government of Sudan in 2001.[14] Mi-8 helicopters commonly are used for transporting troops, but variants also carry a range of weapon systems.[15]

CRN is attempting to verify the reports that AviChina has sold military aircraft to Sudan, whether AviChina has made additional sales, and whether any previous contracts involved ongoing obligations such as those for repair or maintenance of equipment.

Sudan may continue to look to Chinese companies for military equipment. In late October 2007, a Sudanese military delegation inspected Chinese-made aircraft at the Zhuhai Air Show, held in China's Guangdon province, where they reportedly examined K-8 aircraft, the same models delivered to Sudan by AviChina in May 2007. The Sudan Armed Forces already use Chinese-made tanks and fighters, as well as several other Chinese weapon models.[16]

## POTENTIAL CONCERNS AND RISKS

### Use of company product for military purposes

Though the existing United Nations arms embargo prohibits the sale of military materials if for use in Darfur, it allows other sales to the Sudanese government, and there is a risk that AviChina's products ultimately will assist military actions in Darfur or other areas of Sudan. The Sudanese government has regularly moved weapons and military equipment into Darfur despite the UN embargo, and a UN panel of experts concluded in October 2009 that numerous other armed actors in Darfur continued to violate the embargo as well.[17]

Though Mi-8 helicopters on which AviChina performed repairs for the Sudanese government are designed for transport, not carrying rockets and missiles, they reportedly have been used to ferry troops to areas in which fighting is taking place or where atrocities have been carried out against civilians.[18] It has been reported that at least 15 Mi-8 helicopters sold to the Government of Sudan have been used in indiscriminate attacks on civilians in Darfur.[19]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Companies that supply "Military Equipment" within Sudan are considered to have "Scrutinized Business Operations" under the targeted Sudan divestment legislative model. Since "Military Equipment" includes equipment that readily may be used for military purposes, AviChina's sales of military aircraft to Sudan appear to qualify it as "Scrutinized."

## ENGAGEMENT

CRN has sent regular inquiries since 2007 to AviChina requesting dialogue and information regarding the company's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

AviChina has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether AviChina has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

AviChina is not a UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: AVICHINA INDUSTRY & TECHNOLOGY LTD

[1] "North, south Sudan trade accusations of troop build-up," Reuters, September 27, 2010, at http://www.alertnet.org/thenews/newsdesk/HEA749890.htm; "Report: Arms Race in Sudan, Two Millions Weapons Among Civilians," Enough Project website, December 18, 2009, at http://www.enoughproject.org/blogs/report-arms-race-sudan-2-million-weapons-among-civilians.

[2] Mike Lewis, Skirting the Law: Sudan's Post-CPA Arms Flows, Small Arms Survey HSBA Working Paper 18, September 2009, Geneva.

[3] Sudan: Overview of Sanctions," U.S. Department of the Treasury, Office of Foreign Assets Control, July 25, 2008, at http://www.treas.gov/offices/enforcement/ofac/programs/sudan/sudan.pdf.

[4] Mike Lewis, Skirting the Law: Sudan's Post-CPA Arms Flows, Small Arms Survey HSBA Working Paper 18, September 2009, Geneva.

[5] "Report of the Panel of Experts established pursuant to resolution 1591 (2005) concerning the Sudan," United Nations, October 29, 2009, at http://www.un.org/sc/committees/1591/reports.shtml.

[6] "Sudan: Arming the Perpetrators of Grave Abuses in Darfur," Amnesty International, November 16, 2004, at http://www.amnesty.org/en/library/asset/AFR54/139/2004/en/41a51ade-d567-11dd-bb24-1fb85fe8fa05/afr541392004en.pdf.

[7] Mike Lewis, "Skirting the Law: Sudan's Post-CPA Arms Flows," Small Arms Survey HSBA Working Paper 18, September 2009, Geneva.

[8] "Overview," AviChina Industry & Technology Company website, at http://en.avichina.com/gsjj.html.

[9] Id.

[10] This assertion was based on a report from a military magazine, Air Forces Monthly. See "Sudan: Arms Continuing to Fuel Serious Human Rights Violations in Darfur," Amnesty International Report, May 8, 2007, at http://web.amnesty.org/library/Index/ENGAFR540192007?open&of=ENG-SDN.

[11] Jiangxi Hondgu Aviation Industry Co. Ltd. is profiled elsewhere in this report.

[12] "K-8 Foreign Sales," Sino Defense website March 24, 2008, at http://www.sinodefence.com/airforce/trainer/k8-foreign-sales.asp.

[13] "AVIC II Trainer Jet Ready for Production," People's Daily, September 23, 2005, at http://english.people.com.cn/200509/23/eng20050923_210250.html.

[14] "Sudan/China: Appeal by Amnesty International to the Chinese Government on the Occasion of the China-Africa Summit for Development and Cooperation," Amnesty International Report, November 1, 2006, at http://web.amnesty.org/library/Index/ENGAFR540722006?open&of=ENG-SDN; though this report uses the name Harbin Dongan Engine Manufacturing Company, it appears to be referring to Harbin Dongan Auto Engine Company.

[15] "Sudan/China: Appeal by Amnesty International to the Chinese Government on the Occasion of the China-Africa Summit for Development and Cooperation," Amnesty International Report, November 1, 2006, at http://web.amnesty.org/library/Index/ENGAFR540722006?open&of=ENG-SDN.

[16] Andrei Chang, "Analysis: Chinese Arms and African Oil," Energy Daily, November 5, 2007, at http://www.energy-daily.com/reports/Analysis_Chinese_arms_and_African_oil_999.html.

[17] Mike Lewis, "Skirting the Law: Sudan's Post-CPA Arms Flows," Small Arms Survey HSBA Working Paper 18, September 2009, Geneva; "Report of the Panel of Experts established pursuant to resolution 1591 (2005) concerning the Sudan," United Nations, October 29, 2009, at http://www.un.org/sc/committees/1591/reports.shtml.

[18] "Sudan/China: Appeal by Amnesty International to the Chinese Government on the Occasion of the China-Africa Summit for Development and Cooperation," Amnesty International Report, November 1, 2006, at http://web.amnesty.org/library/Index/ENGAFR540722006?open&of=ENG-SDN.

[19] "Blood at the Crossroads: Making the case for a global Arms Trade Treaty," September 2008, Amnesty International, at http://www.amnesty.org/en/library/info/ACT30/011/2008/en. CRN is trying to ascertain who the manufacturers of these types of helicopters are; Kazan Helicopters, in the Russian Federation, has produced such helicopters in the past.

COMPANY

# BHARAT ELECTRONICS LIMITED

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **INDIA** | **MILITARY EQUIPMENT** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan has been host to numerous conflicts featuring large levels of violence targeted against civilians. Since 2003, the Sudanese military and proxy militias have conducted a campaign in Darfur—characterized by the U.S. government as genocide—that has resulted in the deaths of at least 200,000 people. Twenty-two years of civil war between Sudan's north and south concluded in 2005 when the Government of Sudan and the Sudan People's Liberation Movement signed the Comprehensive Peace Agreement (CPA). That war led to the deaths of two million Sudanese.

It is widely predicted that southern Sudan will secede from the north following a January 2011 referendum on independence. Human rights advocates, political leaders and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

It is difficult for companies with arms-related business to do no harm in this context. In the event conflict erupts around the 2011 referendum, their products will play a central role in facilitating violence, increasing the potential for heightened impacts on civilians. Already, heightened tensions have led to troop buildup along north-south border regions and to increased weapons proliferation amongst civilians.[1]

While a United Nations embargo[2] prohibits the provision of military equipment to parties in Darfur, and U.S.[3] and European Union sanctions[4] restrict the trade of arms more generally, materials have repeatedly found their way to restricted areas.[5] Foreign actors have been important partners—military aircraft from Russia and China have been used in attacks in Darfur. China, Iran, Russia, Ukraine and Belarus are reported to be Sudan's main suppliers of small arms.[6]

Recent studies indicate that the transfer of arms to all parts of Sudan continues apace and is in some cases increasing, with patterns, actors and methods of distribution similar to those seen during the last civil war between the north and the south.[7]

### Company

Bharat Electronics Limited (BEL) is a defense equipment firm that is majority owned by the Indian government.[8] The company has been linked to Sudan-related business since 2005, when it was involved in the sale of battlefield radars to Sudan.[9] While these products meet the definition of "Military Equipment" under the targeted Sudan divestment legislative model, more information on the company's current business is required to determine whether it should be classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In February 2005, BEL announced that it had signed a contract to supply the Government of Sudan with ten battlefield radars.[10] The company secured an additional contract to supply communication and night vision equipment, worth U.S. $16.8 million, in April of that year.[11] The company also has sold civilian equipment, including solar modules, to the Sudan government.[12]

It is unclear whether these contracts have been fully executed and whether any transactions are currently ongoing. The Government of Sudan may remain a potential customer for BEL's products, as evidenced by visits from Sudanese delegations to BEL's stall at an army and navy equipment exposition in Delhi in 2008.[13]

## POTENTIAL CONCERNS AND RISKS

### Use of company product for military purposes

Though the existing United Nations arms embargo prohibits the sale of military materials if for use in Darfur, it allows other sales to the Sudanese government, and there is a risk that BEL's products will ultimately assist military actions in Darfur or other areas of Sudan. The Sudanese government has regularly moved weapons and military equipment into Darfur despite the UN embargo, and a UN panel of experts concluded in October 2009 that numerous other armed actors in Darfur continued to violate the embargo as well.[14]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Companies that supply "Military Equipment" within Sudan are considered "Scrutinized" under the targeted Sudan divestment legislative model. "Military Equipment" includes radar systems and other equipment that readily may be used for military purposes. However, more information on the current status of BEL's business is required to determine whether it should be classified as "Scrutinized."

## ENGAGEMENT

CRN has sent regular inquiries to BEL since 2007 requesting dialogue and information regarding the company's Sudan-related operations. CRN has not received a response.

## RELEVANT POLICIES & PRACTICES

### 1. Human Rights Policy

BEL has not published a human rights policy or referenced key human rights norms in its materials.

### 2. Impact Assessments

No information is available on whether BEL has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

BEL is not UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: BHARAT ELECTRONICS LIMITED

[1] "North, south Sudan trade accusations of troop build-up," Reuters, September 27, 2010, at http://www.alertnet.org/thenews/newsdesk/HEA749890.htm; "Report: Arms Race in Sudan, Two Millions Weapons Among Civilians," Enough Project website, December 18, 2009, at http://www.enoughproject.org/blogs/report-arms-race-sudan-2-million-weapons-among-civilians.

[2] Mike Lewis, Skirting the Law: Sudan's Post-CPA Arms Flows, Small Arms Survey HSBA Working Paper 18, September 2009, Geneva.

[3] Sudan: Overview of Sanctions," U.S. Department of the Treasury, Office of Foreign Assets Control, July 25, 2008, at http://www.treas.gov/offices/enforcement/ofac/programs/sudan/sudan.pdf.

[4] Mike Lewis, Skirting the Law: Sudan's Post-CPA Arms Flows, Small Arms Survey HSBA Working Paper 18, September 2009, Geneva.

[5] "Report of the Panel of Experts established pursuant to resolution 1591 (2005) concerning the Sudan," United Nations, October 29, 2009, at http://www.un.org/sc/committees/1591/reports.shtml.

[6] "Sudan: Arming the Perpetrators of Grave Abuses in Darfur," Amnesty International, November 16, 2004, at http://www.amnesty.org/en/library/asset/AFR54/139/2004/en/41a51ade-d567-11dd-bb24-1fb85fe8fa05/afr541392004en.pdf.

[7] Mike Lewis, "Skirting the Law: Sudan's Post-CPA Arms Flows," Small Arms Survey HSBA Working Paper 18, September 2009, Geneva.

[8] "Statement Showing Share Holding Pattern," Bharat Electronics Limited, December 30, 2008, at http://www.bel-india.com/images/itm-pdfs/SHP-2008-09-Q3.pdf (link no longer available; copy retained by CRN).

[9] "BEL Begins Export of Radars to Indonesia & Sudan," India info, February 8, 2005, at http://finance.indiainfo.com/news/2005/02/08/0802aerobel.html (last accessed April 27, 2010); "Radar for Sudan," Africa Intelligence, February 19, 2005, at http://www.africaintelligence.com/ (subscription required; copy retained by CRN).

[10] "BEL Begins Export of Radars to Indonesia & Sudan," India info, February 8, 2005, at http://finance.indiainfo.com/news/2005/02/08/0802aerobel.html (last accessed April 27, 2010); "Radar for Sudan," Africa Intelligence, February 19, 2005, at http://www.africaintelligence.com/ (subscription required; copy retained by CRN).

[11] "BEL Targets Rs.[36] Bn Revenue in 2005-06," Indo-Asian New Service, SouthAsianNews.com, April 12, 2005, at http://www.southasianews.com/4448/BEL-targets-Rs.[36]-bn-revenue-in-2005-06.htm; "Bharat Electronics Limited Annual Report 2004-5," p.[8], Bharat Electronics Limited, 2005, at www.bel-india.com/BELWebsite/images/Annual_report-05.pdf (link no longer available; copy retained by CRN).

[12] "BEL Begins Export of Radars to Indonesia & Sudan," India Info, February 8, 2005, at http://finance.indiainfo.com/news/2005/02/08/0802aerobel.html.

[13] "Press Release: BEL signs term sheet, MoUs at Defexpo 2008," Bharat Electronics Limited, February 21, 2008, at http://www.bel-india.com/images/itm-pdfs/february-21-2008-press.pdf (link no longer available; copy retained by CRN).

[14] Mike Lewis, "Skirting the Law: Sudan's Post-CPA Arms Flows," Small Arms Survey HSBA Working Paper 18, September 2009, Geneva; "Report of the Panel of Experts established pursuant to resolution 1591 (2005) concerning the Sudan," United Nations, October 29, 2009, at http://www.un.org/sc/committees/1591/reports.shtml.

COMPANY

# BHARAT HEAVY ELECTRICALS LIMITED (BHEL)

| COUNTRY | SECTOR | CRN Classification |
|---|---|---|
| **INDIA** | **POWER** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Power projects have the potential to provide a much-needed increase in the production of electricity in Sudan, where only 22% of the population had access to electricity as recently as five years ago.[1] Sudan's National Electricity Corporation (NEC), the government body responsible for the transmission and distribution of electricity in Sudan, states that it endeavors to connect the entire country to a stable electric network by 2030.[2] As of 2007, completed transmission lines primarily connect Khartoum and other major northern cities, leaving most of Sudan's marginalized populations excluded from the benefit of power production projects.[3]

Because the NEC—a subcomponent of Sudan's Ministry of Energy and Mining—is charged with supplying electrical power in Sudan, companies involved in power production projects most likely will be contracting directly with that government body or on government-commissioned projects.

Power projects are underway in dozens of locations, including some regions that have experienced instability in recent years, as well as those that may become increasingly insecure with the anticipated secession of southern Sudan in 2011.

While power production projects—with the exception of certain hydropower projects—are generally not associated with some of the serious impacts linked with the extractive sector, companies involved in them may face increasing challenges due to upcoming events in Sudan. It is widely predicted that southern Sudan will secede from the north following a referendum on independence that is scheduled for January 9, 2011. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could trigger conflict between Sudan's north and south.

### Company

Bharat Heavy Electricals Limited (BHEL), majority owned by the Indian government, is a power and energy company and India's largest engineering and manufacturing enterprise.[4] The company has contracted with the Sudanese National Electricity Corporation (NEC) to construct the Kosti power station south of Khartoum. BHEL's work on projects commissioned by the NEC constitutes "Power Production Activities" under the targeted Sudan divestment legislative model; however more information on the scope of BHEL's work is required to determine if it would be classified as "Scrutinized" under the targeted model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

BHEL's work in Sudan began in 2005 when it shipped several locomotives and associated parts to Sudan Railways.[5] In 2006, BHEL contracted with Sudan's National Electricity Corporation (NEC) to build a 500 megawatt (MW) steam power station at Kosti,[6] south of Khartoum, and transmission lines between Jebel Awlia, Rank, and Al Obeid.[7] The contract was valued at U.S. $457 million, representing one of the largest contracts ever signed between Sudan and India, and BHEL's largest single export order.[8]

Construction of the Kosti power station began in February 2006 and was initially scheduled to be completed by 2009.[9] In July 2009, BHEL told CRN that the project is in an advanced stage and that the company expected to complete it by the end of 2010.[10] BHEL's Resident Manager in Sudan and the NEC confirmed this revised timeline.[11]

BHEL has received other orders for supplies, services, and power generating equipment for unidentified Sudanese power projects.[12] In March 2008, a BHEL official stated that the company had received contracts to provide transformers to coal-fired power plants in Sudan.[13] This may refer to power projects outside of the company's work at the Kosti power station.

In May 2010, senior company executives announced that a memorandum of understanding (MOU) signed by the NEC and BHEL in 2006, was likely to be revised. This MOU called for BHEL to set up a 1,000 MW power plant in Port Sudan in exchange for crude oil or cash. This project is believed to require an investment of U.S. $1 billion, and there is speculation that the agreement will be inked soon. Reports indicate that BHEL may approach ONGC Videsh (a subsidiary of India's state-owned Oil and Natural Gas Company, ONGC) to facilitate an exchange of crude oil. ONGC Videsh has confirmed that it would be interested in assisting BHEL in this venture.[14]

## POTENTIAL CONCERNS AND RISKS

### Potential for general instability and conflict around January 2011 referendum

While power production projects—with the exception of certain hydropower projects—are generally not associated with displacement, security concerns, and other serious impacts linked with the extractive sector, companies involved in them may face increasing challenges due to upcoming events in Sudan. It is widely predicted that southern Sudan will secede from the north following a referendum on independence that is scheduled for January 9, 2011. The vote is called for under the Comprehensive Peace Agreement (CPA), signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement. The CPA brought an end to 22 years of civil war between Sudan's north and south that had led to the deaths of two million Sudanese. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

The potential for fall-out from the referendum process holds significant implications for the private sector in Sudan, including companies involved in power production projects. Areas affected by conflict differ significantly from stable operating environments. They exhibit instability, unpredictable conditions, and contexts in which rights violations are ongoing, presenting companies with greater challenges in ensuring they do not infringe on human rights. Not only is it more difficult for companies to do no harm in such settings, but the failure to adhere to standard corporate responsibility practices carries the potential for heightened impacts on communities and on companies themselves.

### Potential for project impact on local communities

The Kosti power station is located in northern Sudan's White Nile state, approximately 85 kilometers from the sensitive border between north and south Sudan. In a letter to CRN, BHEL stated that its Kosti project is in a safe area that has not experienced "disturbances." [15]

Similarly, the company's construction of transmission lines is unlikely to cause displacement, as this project connects the Kosti station with the Nile River cities of Rank and Jebel Awlia, as well as the North Kordofan city of Al Obeid. It appears that the potential route for the transmission lines follow existing roads linking Kosti with these three cities.[16] This makes is unlikely that the construction of these transmission lines will disrupt local populations.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

BHEL's involvement in power projects commissioned by the NEC is considered "Power Production Activities" under the targeted Sudan divestment legislative model. A company involved in "Power Production Activities" is not considered "Scrutinized" if 75% of those activities include projects whose intent is to provide power or electricity to "Marginalized Populations" in Sudan. According to the NEC, the Kosti power station will serve South Sudan and the Kordofan states, which could be interpreted as "Marginalized." [17] Given the potential route of the transmission lines, it appears that the area likely to be considered "Marginalized" is the southern city of Rank (Renk) in Upper Nile State. While the company is on CRN's watch list, more information on the scope of BHEL's work is required to determine whether it sould be classified as "Scrutinized" under the targeted model.

## ENGAGEMENT

CRN sent an initial inquiry in August 2007 requesting dialogue and further information regarding the company's Sudan-related operations, to which BHEL replied in September 2007. CRN met with BHEL in India in May 2008, and sent follow-up requests for further dialogue and information in October 2008 and May 2009. In July 2009, BHEL sent correspondence providing some information on its Sudan-related operations. This correspondence also stated the company's belief in the importance of the power sector to development and stability, its understanding that its project site has not created disturbances, and openness to further discussion with CRN.

## RELEVANT POLICIES & PRACTICES

### 1. Human Rights Policy

BHEL does not have a stand-alone human rights policy. However, in its 2008 UN Global Compact (UNGC) Communication on Progress, BHEL states that its company policies were drafted with consideration of human rights principles, which include support for and respect of international proclaimed human rights and avoiding complicity in human rights abuses.[18]

### 2. Impact Assessments

No information is available on whether BHEL has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

In its UNGC **Letter of Commitment,** BHEL reported that it intended to advance the Global Compact's principles within the company's strategy, culture, and daily operations.[19]

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

BHEL has been an active participant in the UNGC since September 9, 2001.[20] It has stressed a commitment to UNGC principles in multiple annual reports and in its communications with CRN.[21]

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: BHARAT HEAVY ELECTRICALS LIMITED (BHEL)

[1] "US$41 Million Project to Connect Ethiopia and Sudan Power Grids, Promote Energy Trade," World Bank, December 20, 2007, at http://go.worldbank.org/82TH8GUBP0.

[2] "Our Vision," National Electricity Corporation, at http://www.necsudan.com/en/home.php.

[3] "Transmission Lines," Dams Implementation Unit, Merowe Dam Project website, at http://www.merowedam.gov.sd/en/transp-lines.html.

[4] "About Us," Bharat Heavy Electricals Limited website, at http://www.bhel.com/about.php.

[5] "Annual Report 2006-2007," p. 42, Ministry of Heavy Industries and Public Enterprises (Government of India) website, 2007, at http://dhi.nic.in/dhi0607eng.pdf.

[6] The website for Sudan's NEC states that the plant is located in Kosti, north of Khartoum. However, a letter from BHEL in July 2009 confirms that the plant is located in the town of Kosti, south of Khartoum in White Nile State.

[7] "BHEL Bags Big Contract in Sudan," The Hindu, February 19, 2006, at http://www.hindu.com/2006/02/19/stories/2006021920000300.htm; "Indians to Build Power Plant," Africa Energy Intelligence, February 22, 2006, at http://www.africaintelligence.com (subscription required; copy retained by CRN).

[8] "Annual Report 2005-2006," p.[19], Bharat Heavy Electricals Limited, 2006, at http://www.bhel.com/financial_information/index.php.

[9] "BHEL Bags Big Contract in Sudan," The Hindu, February 19, 2006, at http://www.hindu.com/2006/02/19/stories/2006021920000300.htm.

[10] Letter from BHEL to CRN, July 13, 2009.

[11] "Kosti Steam Power Plant Project," National Electricity Commission - Sudan website, at http://www.necsudan.com/en/projects_underconstruction4.php; Bhaskar Chakravorti, "India Celebrates 60 Years of its Republic," Sudan Vision Daily, February 3, 2010, at http://www.sudanvisiondaily.com/modules.php?name=News&file=print&sid=53652.

[12] "Annual Report 2008-2009," pp.[37]-38, Bharat Heavy Electricals Limited, 2000, at http://www.bhel.com/financial_information/index.php.

[13] Shaleen Agarwal, "BHEL Will Acquire Heavy Plates," Daily News and Analysis, March 15, 2008, at http://www.dnaindia.com/report.asp?newsid=1156069.

[14] "Sudan offers payment in oil for power project," Live Mint, May 2, 2010, at http://www.livemint.com/2010/05/02211540/Sudan-offers-payment-in-oil-fo.html?h=B.

[15] Letter from BHEL to CRN, July 13, 2009.

[16] "NEC, Sudan Projects Profile 2006-2011," p. 32, National Electricity Corporation—Sudan, 2009 at http://www.necsudan.com (link no longer available; copy retained by CRN).

[17] "Kosti Power Station Project," National Electricity Corporation - Sudan website, at http://www.necsudan.com/en/projects_underconstruction4.php.

[18] "Global Compact Principles," 2007-2008, BHEL website at http://www.bhel.com/images/pdf/healthsafety/Communicatio_Progress_07-08.pdf.

[19] "BHEL's Commitment In Support of U.N.G.C. Programme," Bharat Heavy Electricals Limited, June 17, 2010, posted on United Nations Global Compact website, at http://www.unglobalcompact.org/system/commitment_letters/1300/original/BHEL_s_Commitment.pdf?1276936531.

[20] "Bharat Heavy Electricals Limited," United Nations Global Compact website, 2010, at http://www.unglobalcompact.org/participant/1300-Bharat-Heavy-Electricals-Limited-BHEL.

[21] "Annual Report 2009," BHEL website at http://www.bhel.com/images/pdf/AR0405.pdf.

COMPANY

# CHINA HYDRAULIC AND HYDROELECTRIC CONSTRUCTION GROUP (SINOHYDRO)

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **CHINA** | **POWER** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Hydroelectric projects have the potential to provide a much-needed increase in power production in Sudan, where only 22% of the population had access to electricity as recently as five years ago. Hydroelectricity has been the focus of Sudan's efforts to expand power production in recent years, and the recently completed Merowe Dam has alone doubled Sudan's power capacity. Dam building or expansion projects are underway at the Roseires and Kajbar Dams, and feasibility studies are underway for a number of additional projects.

Given the nature of hydroelectric projects, they also have the potential to exacerbate an important driver of conflict in Sudan: access to land. Dam projects can cause direct displacement at project sites (often of poor or already marginalized groups),[1] alter river flows, and damage downstream ecosystems, wetlands and farmlands, all of which can heighten tensions surrounding access to and use of land.[2] Land is a scarce resource over which disputes erupt frequently. Numerous factors—including growth in human and livestock populations, unhealthy livestock, arboricultural and farming techniques, desertification, and population displacements—increase competition for land in Sudan. The increasing scarcity of land has aggravated tensions between pastoralists and agriculturalists, which are heightened by an influx of arms. Projects that affect this dynamic have the potential to fuel tensions and even trigger conflicts.

Some projects also run the risk of heightening ethnic tensions, an important factor in many conflicts in Sudan. The lack of transparency around dam projects and the government's heavy-handed approach towards resettlement has given rise to a perception by some affected communities that projects are related to efforts to "Arabize" the regions around the dams. In some cases, these perceptions have led to increased militarization among affected peoples.[3]

In addition to affecting these dynamics, hydropower projects have at times been associated directly with violence against local communities.[4] Upcoming developments in Sudan may present additional challenges for companies involved in hydropower projects. It is widely predicted that South Sudan will secede from the north following a referendum on independence that is scheduled for January 9, 2011. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

The potential for fall-out from the referendum process holds significant implications for the private sector in Sudan, as areas affected by conflict differ significantly from stable operating environments. They exhibit instability, unpredictable conditions, and contexts in which rights violations are ongoing, presenting companies with greater challenges in ensuring they do not infringe on human rights. Not only is it more difficult for companies to do no harm in such settings, but the failure to adhere to standard corporate responsibility practices carries the potential for heightened impacts on communities and on companies themselves.

### Company

The China Hydraulic and Hydroelectric Construction Group (Sinohydro) is a Chinese state-owned enterprise focused on hydroelectric power project construction.[5] As of 2009, Sinohydro was reportedly involved in more than half of all hydropower projects around the globe.[6] Its hydroelectric projects in Sudan began in 2003 and have been associated with forced displacement, human rights violations, and negative environmental impacts.

Sinohydro's involvement in hydropower projects in Sudan constitutes "Power Production Activities" under the targeted Sudan divestment legislative model, and the company is therefore classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Sinohydro, partnered with state-owned China International Water & Electric Corporation (CWE) as CCMD Joint Venture, was responsible for the physical construction of the Merowe Dam's civil and hydromechanical works.[7]

The dam, located on the fourth cataract of the Nile River, was financed by various Arab funds and overseen by Sudan's Dam Implementation Unit (DIU), an autonomous government entity headed by a presidentially appointed government official.[8] All turbines are now operational, adding the dam's full capacity to the national power grid.[9] Despite the completion of the dam, it appears CCMD employees were on site as recently as April 2010.[10]

Sinohydro has taken, or is considering, several other contracts in Sudan. In April 2007, Sudan's ambassador to China and Governor Faisal of North Kordofan visited Sinohydro Corporation and signed a cooperation framework. This agreement appeared to include plans to build an 823 km delivery pipeline, water treatment plant, and pump station, drafting water away from the Nile. However, as of November 2010, it is unclear whether the contract has been finalized or construction has commenced.[11]

In April 2008, CWE and Sinohydro, again operating as CCMD, won a contract to heighten the Roseires Dam in Sudan.[12] The U.S. $396 million deal is being financed by the Arab Fund for Economic Development, the Islamic Development Bank, and the Kuwaiti Economic Development Fund.[13] The project will raise the height of the dam by 10 meters, increasing the capacity of its reservoir by four billion cubic meters[14] and displacing twelve villages.[15] Construction on the project began in September 2009 and is on schedule to be completed in 2013.[16]

In addition to its hydropower projects, Sinohydro signed a U.S. $300 million contract to build 486 kilometers of roads in Sudan in early 2009.[17]

## POTENTIAL CONCERNS AND RISKS

### Merowe dam project's impacts are ongoing and could exacerbate or generate instability and conflict

Sinohydro remains associated with the Merowe dam project through the role it played in its physical construction hydromechanical works. Though the Merowe Dam is completed, its impacts may play a lasting role in generating and exacerbating a risk of conflict in the region. Local communities—in particular the Manasir tribe—were opposed to the project from the beginning. Now displaced from their traditional waterline homelands and disconnected from their former livelihoods, they have largely rejected as inadequate the compensation and desert resettlement sites offered by the government.[18]

Protests over resettlement, compensation, and displacement have led to clashes in which civilians have been killed and arrested by security forces, and ongoing tensions remain a concern. The DIU, an autonomous government body overseeing the dam, is said to have its own army and security force and to operate outside regular government processes.[19] In 2003, DIU security forces fired on civilian protestors, wounding five. In April 2006, they fired upon local protestors, resulting in three deaths and at least fifty injuries, and in May 2009, protests over the dam led to clashes between resettled farmers and local police. The farmers reportedly lost their crops for a third time due to water shortages and protested by blocking a highway. Police countered with live ammunition, severely injuring at least one demonstrator.[20]

Affected communities reportedly are increasingly militant, with some younger Manasir joining the Sudan People's Liberation Army, hundreds of others heading to Eritrea for military training, and some joining an armed group in eastern Sudan. Also heightening the risk of future conflict is a sense among some communities that the Merowe project was part of a larger government effort to eradicate their culture and "Arabize" the region.[21]

The dam has displaced or otherwise affected at least 70,000 people.[22] Some of its other negative effects include potential for reduced river valley groundwater recharge, blockage of fish migrations, and damaged downstream agriculture. In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards projects and companies.

## Potential for local instability and violence as a result of the Roseires Dam heightening project

Construction is currently underway to raise the Roseires Dam by 10 meters, which will add four billion cubic meters of water to the reservoir and displace approximately 22,000 people in twelve villages.[23]

Construction for 12 residential cities for the displaced people has commenced, but the problematic results of a similar resettlement effort for the Merowe dam project raises concerns about the potential for instability and violence.

## Potential impact of dam creation on the local environment

Dams can cause significant environmental degradation, damaging downstream ecosystems and destroying nearby farmland. Sudanese law, as well as the World Commission on Dams, requires that dam and power-related projects are preceded by environmental impact assessments.[24] The brief assessment of the Merowe dam project conducted by Lahmeyer International failed to meet European or international standards,[25] and it is not apparent whether any assessments took place prior to the heightening of the Roseires Dam.

In 2006, China's State-owned Assets Supervision and Administration Commission (SASAC) carried out its annual examination of the performance of central state-owned enterprises. Sinohydro was given a "D" grade due to "safety or environmental pollution accidents,"[26] and reported violations of environmental and safety standards.[27]

Since then, Sinohydro appears to be taking steps to put an environmental policy in place. In 2009, the company met with a coalition of non-governmental organizations led by International Rivers and indicated that it would consider preparing an environmental policy.[28] In March 2010, Sinohydro stated that it is drafting an environmental policy and invited input and recommendations from International Rivers and its partners on the potential policy.[29]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As of November 2010, Sinohydro is a privately held company with bonds issued. However, the company may be publicly traded in the future. In late 2009, Sinohydro announced plans for an Initial Public Offering (IPO) on the Shanghai Stock Exchange.[30] This IPO appears to have been delayed.

## ENGAGEMENT

CRN has sent regular inquiries since 2007 requesting dialogue and further information regarding Sinohydro's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Sinohydro has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

While Sinohydro is administering a Social Impact Assessment for its Nam Ngum hydropower project in China,[31] there is no information suggesting it has done so for the Roseires heightening project.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

Sinohydro is not a UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: CHINA HYDRAULIC AND HYDROELECTRIC CONSTRUCTION GROUP

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COMPANY

# CHINA INTERNATIONAL WATER & ELECTRIC CORPORATION (CWE)

| COUNTRY | SECTOR | ENGAGEMENT CATEGORY |
|---|---|---|
| **CHINA** | **POWER** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Hydroelectric projects have the potential to provide a much-needed increase in power production in Sudan, where only 22% of the population had access to electricity as recently as five years ago. Hydroelectricity has been the focus of Sudan's efforts to expand power production in recent years, and the recently completed Merowe Dam has alone doubled Sudan's power capacity. Dam building or expansion projects are underway at the Roseires and Kajbar Dams, and feasibility studies are underway for a number of additional projects.

Given the nature of hydroelectric projects, they also have the potential to exacerbate an important driver of conflict in Sudan: access to land. Dam projects can cause direct displacement at project sites (often of poor or already marginalized groups),[1] alter river flows, and damage downstream ecosystems, wetlands and farmlands, all of which can heighten tensions surrounding access to and use of land.[2] Land is a scarce resource over which disputes erupt frequently. Numerous factors—including growth in human and livestock populations, unhealthy livestock, arboricultural and farming techniques, desertification, and population displacements—increase competition for land in Sudan. The increasing scarcity of land has aggravated tensions between pastoralists and agriculturalists, which are heightened by an influx of arms. Projects that affect this dynamic have the potential to fuel tensions and even trigger conflicts.

Some projects also run the risk of heightening ethnic tensions, an important factor in many conflicts in Sudan. The lack of transparency around dam projects and the government's heavy-handed approach towards resettlement has given rise to a perception by some affected communities that projects are related to efforts to "Arabize" the regions around the dams. In some cases, these perceptions have led to increased militarization among affected peoples.[3]

In addition to affecting these dynamics, hydropower projects have at times been associated directly with violence against local communities.[4] Upcoming developments in Sudan may present additional challenges for companies involved in hydropower projects. It is widely predicted that South Sudan will secede from the north following a referendum on independence that is scheduled for January 9, 2011. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

The potential for fall-out from the referendum process holds significant implications for the private sector in Sudan, as areas affected by conflict differ significantly from stable operating environments. They exhibit instability, unpredictable conditions, and contexts in which rights violations are ongoing, presenting companies with greater challenges in ensuring they do not infringe on human rights. Not only is it more difficult for companies to do no harm in such settings, but the failure to adhere to standard corporate responsibility practices carries the potential for heightened impacts on communities and on companies themselves.

### Company

China International Water & Electric Corporation (CWE) is a state-owned firm controlled by China's Ministry of Water Resources and the Ministry of Foreign Trade and Economic Cooperation.[5] Its operations in Sudan date back to at least 1996 when it constructed several water pumping stations along the Nile.[6]

CWE's hydroelectric projects in Sudan have had problems with forced displacement, human rights violations, and negative environmental impacts. As it is not publicly-traded, CWE is not considered "Scrutinized" under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

CWE partnered with Sinohydro to form CCMD Joint Venture, which was responsible for the physical construction of the Merowe Dam's civil and hydromechanical works.[7] The dam, located on the fourth cataract of the Nile River, was financed by various Arab funds and overseen by Sudan's Dam Implementation Unit (DIU), an autonomous government entity headed by a presidentially appointed government official.[8] All ten turbines are now operational, adding the dam's full capacity to the national power grid.[9] Despite the completion of the dam,[10] it appears CCMD employees were on site as recently as April 2010.[11] In April 2008, CWE and Sinohydro, again operating as CCMD, won a contract to heighten the Roseires Dam in Sudan.[12] The U.S. $396 million deal is being financed by the Arab Fund for Economic Development, the Islamic Development Bank, and the Kuwaiti Economic Development Fund.[13] The project will raise the height of the dam by 10 meters, increasing the capacity of its reservoir by four billion cubic meters[14] and displacing twelve villages.[15] Construction on the project began in September 2009 and is on schedule to be completed in 2013.[16]

In April 2010, CWE and China Three Gorges Corporation (CTGC) signed a U.S. $828 million[17] contract with the DIU to construct the Upper Atbara dams complex.[18] The Upper Atbara complex calls for the construction of two dams, Rumira and Bodana, on the Upper Atbara and Setait rivers respectively,[19] and ancillary works in eastern Sudan's Gedaref and Kassala states.[20] The dams will result in a 2.7 billion cubic meter lake.

The complex is designed to irrigate 2,100 square kilometers of farmland in the Upper Atbara and New Halfa agricultural schemes, generate 135 megawatts (MW) of power for the Sudanese national grid, and sustain the flow of the Atbara River year-round.[21] The project is expected to take 65 months to complete and has been called the "biggest project to be implemented by a Chinese company in Sudan," by CWE President Lu Guojun.[22] No start date for construction has been announced, but CWE has begun contracting with suppliers.[23]

## POTENTIAL CONCERNS AND RISKS

### Merowe dam project's impacts are ongoing and could exacerbate or generate instability and conflict

CWE remains associated with the Merowe dam project through the role it played in its physical construction hydromechanical works. Though the Merowe Dam is completed, its impacts may play a lasting role in generating and exacerbating a risk of conflict in the region. Local communities—in particular the Manasir tribe—were opposed to the project from the beginning. Now displaced from their traditional waterline homelands and disconnected from their former livelihoods, they have largely rejected as inadequate the compensation and desert resettlement sites offered by the government.[24]

Protests over resettlement, compensation, and displacement have led to clashes in which civilians have been killed and arrested by security forces, and ongoing tensions remain a concern. The DIU, an autonomous government body overseeing the dam, is said to have its own army and security force and to operate outside regular government processes.[25] In 2003, DIU security forces fired on civilian protestors, wounding five. In April 2006, they fired upon local protestors, resulting in three deaths and at least fifty injuries, and in May 2009, protests over the dam led to clashes between resettled farmers and local police. The farmers reportedly lost their crops for a third time due to water shortages and protested by blocking a highway. Police countered with live ammunition, severely injuring at least one demonstrator.[26]

Affected communities reportedly are increasingly militant, with some younger Manasir joining the Sudan People's Liberation Army, hundreds of others heading to Eritrea for military training, and some joining an armed group in eastern Sudan. Also heightening the risk of future conflict is a sense among some communities that the Merowe project was part of a larger government effort to eradicate their culture and "Arabize" the region.[27]

The dam has displaced or otherwise affected at least 70,000 people.[28] Some of its other negative effects include potential for reduced river valley groundwater recharge, blockage of fish migrations, and damaged downstream agriculture. In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards projects and companies.

### Potential for local instability and violence as a result of the Roseires Dam heightening project

Construction is underway to raise the Roseires Dam by ten feet, which will add four billion cubic meters of water to the reservoir and displace approximately 22,000 people in twelve villages. Construction for 12 residential cities for the displaced people is reportedly underway, but may also be of concern given the problematic relocation efforts for the Merowe dam project.

### Potential impact of dam creation on the local environment

Dams can cause significant environmental degradation, damaging downstream ecosystems and destroying nearby farmland. Sudanese law, as well as the World Commission on Dams, requires that dam and power-related projects precede environmental impact assessments.[29] The brief assessment of the Merowe dam project conducted by Lahmeyer International failed to meet European or international standards.[30] It is unclear whether assessments took place prior to the heightening of the Roseires Dam, or for the Upper Atbara dams complex.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As of November 2010, CWE is not a publicly traded company; therefore it does not fall under the targeted Sudan divestment legislative model.

## ENGAGEMENT

In 2007 and 2008, CRN sent inquiries requesting dialogue and further information regarding CWE's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

CWE has not published a human rights policy or referenced key human rights norms in its materials.

### 2. Impact Assessments

No information is available on whether CWE has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

CWE is not a UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: CHINA INTERNATIONAL WATER & ELECTRIC CORPORATIZON (CWE)

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COMPANY

# CHINA NATIONAL MACHINERY AND EQUIPMENT IMPORT AND EXPORT CORPORATION (CMEC)

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **CHINA** | **POWER** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Power projects have the potential to provide a much-needed increase in the production of electricity in Sudan, where only 22% of the population had access to electricity as recently as five years ago.[1] Sudan's National Electricity Corporation (NEC), the government body responsible for the transmission and distribution of electricity in Sudan, states that it endeavors to connect the entire country to a stable electric network by 2030.[2] As of 2007, completed transmission lines primarily connect Khartoum and other major northern cities, leaving most of Sudan's marginalized populations excluded from the benefit of power production projects.[3]

Because the NEC—a subcomponent of Sudan's Ministry of Energy and Mining—is charged with supplying electrical power in Sudan, companies involved in power production projects most likely will be contracting directly with that government body or on government-commissioned projects.

Power projects are underway in dozens of locations, including some regions that have experienced instability in recent years, as well as those that may become increasingly insecure with the anticipated secession of southern Sudan in 2011.

While power production projects—with the exception of certain hydropower projects—are generally not associated with displacement, security concerns, and other serious impacts linked with the extractive sector, companies involved in them may face increasing challenges due to upcoming events in Sudan. It is widely predicted that southern Sudan will secede from the north following a referendum on independence that is scheduled for January 9, 2011. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could trigger conflict between Sudan's north and south.

### Company

The China National Machinery and Equipment Import Export Corporation (CMEC) is an industrial conglomerate with core practices in engineering, R&D and international trade.[4] The company has constructed several generating and transmission projects for Sudan's NEC.

As the company is not publicly traded, CMEC does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

CMEC's involvement in Sudan began in 1996, when it embarked on a program to construct electrical substations, building eight by 2007.[5] Afterwards, the company increased its involvement in Sudan's power industry. Between 1998 and 2003, it was the contractor for the Rahad Diesel power station.[6]

In 2004, shortly after finishing its work at the Rahad power station, CMEC was contracted to construct an electricity station and transmission lines, including 600 kilometers of 220 kilovolt transmission lines from the Roseires Dam to Khartoum, completed in 2008.[7]

Beginning in 2004, it constructed the fourth stage of the Garri (also known as El Gaili, Jaily and Qarre) Power Station project (Garri 4) for Sudan's National Electricity Corporation (NEC).[8] This work was completed in 2008.[9]

CMEC is the Engineering, Procurement and Construction (EPC) contractor for Phase III of the Khartoum North power plant, which involves the addition of two 100 megawatt (MW) extensions to the existing facility. Even though the Khartoum North plant was scheduled to be completed in spring 2009,[10] work remains ongoing.[11] Mott MacDonald, the engineering firm supervising CMEC's activities, states that the project has experienced delays, but is scheduled to be completed in 2010.[12]

The NEC also contracted CMEC to construct a power plant at Al Fula, South Kordofan and link the plant to the national grid. The company's work on the Al Fula project includes the power plant with its three turbines and accessories, a double circuit transmission line, and four substations.[13] Work on the plant began in March 2010 and is expected to take until 2014.[14] This project may increase development and security in the historically marginalized regions of South Kordofan and the three Darfur states, by linking the Darfur cities of Adila, Ed Daein, Nyala and El Fasher to the national power grid.[15]

As a result of a contract signed in November 2009, CMEC also is slated to construct the White Nile electrification project.[16] Most recently, in 2010, Sudan's Ministry of Industry awarded CMEC a contract to modernize the Friendship Textile Company Ltd. plant, a project expected to last 18 months.[17] However, CMEC also is involved in construction projects that might benefit local populations.

It constructed the Nyala Water Supply project, which transports water from the village of Gride to South Darfur's capital, Nyala, providing the city with 40,000 tons of potable water.[18] China Machine-Building International Corporation, a CMEC subsidiary, signed a contract in April 2009 for the Sudan Rural and Urban Water Supply Project.[19]

## POTENTIAL CONCERNS AND RISKS

### Potential for general instability and conflict around January 2011 referendum

While power production projects—with the exception of certain hydropower projects—are generally not associated with displacement, security concerns, and other negative power companies may face increasing challenges due to upcoming events in Sudan. It is widely predicted that southern Sudan will secede from the north following a referendum on independence that is scheduled for January 9, 2011. The vote is called for under the Comprehensive Peace Agreement (CPA), signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement. The CPA brought an end to 22 years of civil war between Sudan's north and south that had led to the deaths of two million Sudanese. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

The potential for fall-out from the referendum process holds significant implications for the private sector in Sudan, including companies involved in power production projects. Areas affected by conflict differ significantly from stable operating environments. They exhibit instability, unpredictable conditions, and contexts in which rights violations are ongoing, presenting companies with greater challenges in ensuring they do not infringe on human rights. Not only is it more difficult for companies to do no harm in such settings, but the failure to adhere to standard corporate responsibility practices carries the potential for heightened impacts on communities and on companies themselves.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As of November 2010, CMEC is not implicated under the targeted Sudan divestment legislative model because it is not publicly traded.

## ENGAGEMENT

CRN sent an initial inquiry to CMEC in April 2009, requesting dialogue and further information regarding the company's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

CMEC has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether CMEC has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

CMEC is not a UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: CHINA NATIONAL MACHINERY AND EQUIPMENT IMPORT AND EXPORT CORPORATION (CMEC)

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[2] "Our Vision," National Electricity Corporation, at http://www.necsudan.com/en/home.php.

[3] "Transmission Lines," Dams Implementation Unit, Merowe Dam Project website, at http://www.merowedam.gov.sd/en/transp-lines.html.

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[5] "Chinese Companies: The Best Friend of Sudanese," at China Radio International, March 8, 2007, at http://english.cri.cn/4026/2007/08/02/167@256731.htm.

[6] "Thermal Power Generation Project," China National Machinery and Equipment Import Export Corporation website, at http://www.cmec.com/en/contents/135/416.aspx.

[7] Id.

[8] The names Gaili, Garri, Qarre and Jaily appear to refer to the same entity. See e.g., "Garri (El Gaili) Power Station—Plant 4 Sponge Coke Fired Power Plant—CFB Boiler," Lahmeyer International, at http://www.lahmeyer.de/en/projekte/detailansicht/browse/6/project/210/mode/1/; "Project Promotion Directory," Republic of Sudan Ministry of Investment website, at http://www.sudaninvest.gov.sd/English/Projects-FreeZone.htm (link no longer available; copy retained by CRN).

[9] "Thermal Power Generation Project," China National Machinery and Equipment Import Export Corporation website, at http://www.cmec.com/en/contents/135/416.aspx.

[10] "Mott MacDonald appointed to oversee Sudan's Khartoum North Phase III power station," Penn Energy, June 12, 2006, at http://www.pennenergy.com/index/articles/display/257394/s-articles/s-power-engineering/s-projects-contracts/s-mott-macdonald-appointed-to-oversee-sudans-khartoum-north-phase-iii-power-station.html.

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[12] "Mott MacDonald Appointed Owner's Engineer of Sudan P.S.," Contractors Unlimited website, at http://www.contractorsunlimited.co.uk/news/060614-MottMacDonald.shtml.

[13] "Al Fula Steam Power Plant Project," National Electricity Corporation—Sudan website, at http://www.necsudan.com/en/projects_underconstruction2.php.

[14] Maram Mazen, "Sudan to Open $680 Million Power Plant on March 24, SUNA Says," Bloomberg, March 21, 2010, at http://www.bloomberg.com/apps/news?pid=20601116&sid=aNG7fTx2E2Is; "Al Fula Steam Power Plant Project," National Electricity Commission—Sudan website, at http://www.necsudan.com/en/projects_underconstruction2.php.

[15] Id.

[16] "The Signing Ceremony for the Contract of White Nile Electrification Project of Sudan between NEC and CMEC," China National Machinery and Equipment Import Export Corporation website, at http://www.cmec.com/en/contents/141/1251.aspx.

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COMPANY

# CHINA NATIONAL PETROLEUM CORPORATION (CNPC)

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **CHINA** | **OIL** | **PRIORITY ENGAGEMENT** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**CHINA NATIONAL UNITED OIL CORPORATION** (wholly owned subsidiary with Sudan-related operations)
**CHINA PETROLEUM ENGINEERING & CONSTRUCTION CORPORATION** (wholly owned subsidiary with Sudan-related operations)
**CHINA PETROLEUM FINANCE CO. LTD.** (wholly owned subsidiary, bonds issued)
**PETROCHINA CO. LTD.** (majority owned, publicly traded subsidiary)
**DAQING HUAKE GROUP CO. LTD.** (majority owned, publicly traded subsidiary)
**JINAN DIESEL ENGINE CO. LTD.** (majority owned, publicly traded subsidiary)

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

## Company

China National Petroleum Corporation (CNPC) is a Chinese state-owned company with international energy operations. It is the largest player in Sudan's oil industry, with operating stakes in multiple producing and exploratory oil concessions, and subsidiaries involved in the construction of critical oil infrastructure.[3] The company's extensive involvement in Sudan's oil industry leads to potential association with numerous concerns, including environmental and social impacts linked to exploration and production activities and insecurity in concession areas.

Because CNPC is currently involved in exploration, production, and other activities defined as "Oil-Related Activities" under the targeted Sudan divestment legislative model, it is classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

CNPC entered Sudan in 1996 after signing an Exploration and Production Sharing Agreement (EPSA) for Block 6 with Sudan's state-owned oil company. CNPC holds a 95% stake in the Petro Energy consortium operating the block, which straddles Southern Kordofan and South Darfur states. Block 6 currently produces an estimated 40,000 barrels of Fula blend oil per day.[4]

In August 2010, the block underwent an upgrade, adding 18 oil wells, two oil floating stations, and an oil collecting station.[5] In October 2010, it was reported that parts of South Darfur in and around the Block 6 concession were under exploration.[6]

CNPC announced in November 2009 that Block 6 will be part of a deal with Petronas in which Petronas' entire stake in Block 5A will be transferred to CNPC in exchange for an undisclosed portion of Block 6. This exchange has yet to occur as of November 2010, though both companies have reportedly hired consultants to assess the blocks in preparation for the proposed swap.[7]

In addition to entering Block 6 in 1996, CNPC acquired a 40% operating stake in the Greater Nile Petroleum Operation Company (GNPOC), which operates blocks 1, 2 and 4, and until recently had the largest production yield in Sudan.[8] GNPOC's oil fields, including Heglig, Toma, Bamboo, and Diffra are located in and around the contested Abyei region, which straddles the border between northern and southern Sudan. GNPOC produced an estimated 180,000 and 200,000 barrels per day during the first half of 2009.[9]

In 2000, CNPC won the rights to a 41% stake in the Petrodar consortium, which operates blocks 3 and 7 in Upper Nile State. Petrodar's fields produce nearly 300,000 barrels of Dar Blend crude per day.[10]

In August 2005, CNPC acquired a 35% stake in the Red Sea Petroleum Operating Company (RSPOC), which operates Block 15 off the shore of Red Sea state. The 25-year contract governing Block 15 provides for a six-year exploration period, which is underway.[11] The first of two offshore wells was drilled in February 2010,[12] and exploration has resulted in the drilling of at least one dry well.[13]

In 2007, CNPC won a 40% operating stake in Block 13, adjacent to Block 15. CNPC's partners in the Coral Petroleum Operating Company (CPOC) operating this block are PT Pertamina, Sudapet, Sudan's Dindir Petroleum, and Nigeria-based Express Petroleum and Africa Energy.[14] The consortium has conducted gravity prospecting operations in the block.[15]

CNPC has been involved in numerous other aspects of Sudan's oil and gas sector. Its website states "that as a general contractor, [it] has completed the construction of a range of major projects including oilfield surface engineering of blocks 1, 2, and 4, blocks 3 and 7 and Block 6; the 1,506 km long pipeline between Heglig and Port Sudan; the 716 km long pipeline between Block 6 and Khartoum Refinery; the viscosity-breaking unit for Block 6; the phase one construction and phase two upgrade of the Khartoum refinery; and the polypropylene unit." [16]

Additionally, CNPC operates the Khartoum refinery, which it owns jointly with the Government of Sudan.[17]

The company financed half of the refinery's initial cost of U.S. $540 million and completed the U.S. $341 million capacity-doubling expansion project in 2006. The refinery is currently capable of refining 100,000 barrels per day and can handle heavier crude, including the Fula blend produced by Block 6.[18] The Sudanese government has signed a memorandum of understanding with CNPC for the expansion and doubling of the Khartoum refinery and a final deal is expected in 2010.[19]

Since July 2008 CNPC and Petronas have been the main marketers of Sudan's Dar Blend crude to international oil traders.[20] Through its 70% owned subsidiary, Chinaoil, CNPC has also been a purchaser of Sudanese crude.[21] In 2010, it has purchased at least 3.4 million barrels of Nile Blend and 4.6 million barrels of Dar blend through Chinaoil.[22]

Through a number of other subsidiaries, CNPC provides a variety of oilfield services in Sudan. There are reports that CNPC's wholly-owned subsidiary, China Petroleum Engineering Construction Corporation (CPECC), has been awarded seven engineering and construction contracts, valued at U.S. $260 million, in Block 6. The services under these contracts range from power station expansion to oil well development, for which CPECC has already commenced design and raw material purchases.[23]

Other CNPC subsidiaries active in Sudan include the Sudan branch of the Great Wall Drilling Company (GWDC) which provides drilling, cementing, drilling fluid, and machine work; China Huanqiu Contracting & Engineering Corp. (HQCEC), involved in the construction of petrochemical facilities; China National Logging Corporation (CNLC), which provides well-boring technical services to the petroleum industry, including to GNPOC and PDOC; and BGP Inc., which provides seismic data acquisition, data processing services, and equipment fabrications.[24]

BGP Inc. made news in July 2008 when it was announced that the company was being considered to undertake seismic exploration work in Block 12A in North Darfur, the site of armed conflict between government and rebel group forces. However, it does not appear that BGP Inc. has conducted this work.[25] Rather, Zhongyuan Petroleum Exploration Bureau International (ZPEB International), a subsidiary of China's state-owned Sinopec, had been awarded these seismic survey contracts for Block 12A.[26] As of November 2010, BGP inc has six seismic crews operating in varied but undisclosed locations in Sudan.[27]

GWDC won a two-year U.S. $75 million dollar contract in September 2010 to provide well-drilling services to the Petrodar consortium, which operates blocks 3 and 7.[28]

## POTENTIAL CONCERNS AND RISKS

### General potential for increasing instability and violence following anticipated southern secession in January 2011

There is a history of direct connections between the oil industry and conflict in Sudan. This is particularly true in the context of civil war between Sudan's north and south. It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence, and the oil industry and its infrastructure have been identified as assets over which the north and south are likely to battle.

### Local instability in Abyei

There is concern that the Abyei region, in which CNPC's GNPOC concession is located, may be a focal point of renewed violence between north and south Sudan. A referendum on whether the Abyei region will fall in the north or the south in the case of secession is scheduled to be held alongside the south's referendum on independence. Residents of Abyei are set to vote on this question in January 2011, but the north and south disagree about whether the nomadic Arab Missiriya tribe should be allowed to participate in that plebiscite. While the north claims the Missiriya, who spend months each year grazing cattle in Abyei, should be included, the south says they should not.

The Missiriya, who fear southern secession and that a new international boundary would cost them their access to Abyei's land (and therefore their livelihood) have promised to use force against any who attempt to prevent them from voting. The head of the tribe stated in September 2010, "If they don't meet our demands then we will set everything alight. If that leads to war, then so be it." [29] The Misseriya are heavily armed, and analysts believe unresolved disputes with them or other communities could reignite civil war between Sudan's north and south.

Abyei has already been the site of fighting between the north's Sudan Armed Forces (SAF) and the south's Sudan People's Liberation Army (SPLA). In May 2008, clashes between the SAF and SPLA resulted in the destruction of Abyei town and the displacement of more than 60,000 residents.[30]

In addition to being the site of recent instability and conflict, the Abyei region, which is near the strategically important Heglig and Bamboo fields, is seated in a contested border area. [31] Though the Permanent Court of Arbitration (PCA) ruled in 2009 that the two fields, which account for more than a third of Sudan's revenue, lie outside of Abyei,[32] both northern and southern Sudan claim them as constituent parts of their regions. There is concern that disputes over borders in this area could turn violent absent clear agreements between the north and south.[33]

There is also concern that the Abyei referendum may be delayed, a step that the Sudan People's Liberation Movement (SPLM) sees as a harbinger of a wider referendum delay. In mid-October 2010, the ruling National Congress Party (NCP) stated that the Abyei referendum should be postponed, citing the difficulty of holding the Abyei vote and the southern referendum simultaneously.[34] Salva Kiir, president of the regional Government of South Sudan, stated in October 2010 that, "Delay or denial of the right of self-determination for the people of Southern Sudan and Abyei risks dangerous instability. There is without question a real risk of a return to violence on a massive scale if the referenda do not go ahead as scheduled." [35]

## Direct targeting of CNPC assets

As CNPC is a major force in Sudan's oil industry and closely linked to the Government of Sudan, its facilities and personnel are at risk of attack. The company's employees have been targeted by armed opposition groups in the past. In October 2007, the Justice and Equality Movement (JEM), a Darfur rebel group, attacked Block 4, kidnapping and later releasing five oilfield workers. After the kidnappings, JEM warned that it planned to continue targeting foreign oil firms, particularly Chinese companies.[36] JEM allegedly attacked Block 4 again in December 2007, although neither the Government of Sudan nor GNPOC confirmed the attack.[37] In May 2008, JEM threatened future attacks against CNPC's oilfields in Kordofan.[38] Several months later, an armed group kidnapped nine CNPC workers from Heglig oil field (in the GNPOC concession), and killed five.[39] The kidnappers said they wanted Chinese oil firms to leave Sudan "because they work with the government." [40]

## Impacts of exploration activities on local populations

Oil activities in southern Sudan have been associated with human rights abuses against populations living in concession areas, and there is a risk such abuses may be repeated, especially in the context of renewed conflict in Sudan. During the civil war fought between Sudan's north and south from 1983 to 2005, security forces associated with certain oil consortia were linked with numerous human rights violations, including forced displacement and violence against communities in project areas.

Concession areas currently under GNPOC and Petrodar's control were the site of Sudanese government attacks on civilian populations during the civil war. These attacks are said to have been part of a strategy to clear areas for exploration. Government offensives around Block 1 displaced at least 50% of one county's inhabitants, with village clearings involving bombing attacks on civilians and ground attacks by SAF troops and local militias.[41] Villages in the Petrodar concession area suffered similar attacks and displacements, as did those in the Block 5A area-in which CNPC may be acquiring a holding. Exploration in the Block 5A concession area was linked with the deaths of at least 12,000 people and the displacement of another 160,000 during Sudan's civil war.[42]

Environmental impacts are also known to accompany some oil activities. As recently as November 2006, GNPOC consortium facilities were discharging untreated "produced water," which is extracted alongside crude oil.[43] Produced water is unpotable and cannot be used for human or plant consumption. It is unclear if this discharge of untreated waste water continues, but Unity State residents still believe that oilfields in the state are causing water pollution and sickness. GNPOC has responded to these concerns by stating that it has conducted tests that refute such claims and that GNPOC plants comply with international environmental standards.[44] CNPC has also built a U.S. $200 million wastewater treatment plant in the concession, designed to also serve as a water source for the surrounding area.[45]

In both the GNPOC and Petrodar concession areas, oil exploration has affected local residents' ability to access unpolluted water sources for personal and agricultural use. Roads built to service oil installations have shifted the direction of water flows, causing localized droughts and flooding.[46]

CNPC's proposed acquisition of holdings in Block 5A could expose the company to further environmental and human-related rights risks. The White Nile Petroleum Operating Company (WNPOC), operating in Block 5A, has been accused of contaminating the local water supply, affecting at least 300,000 people in Unity State, spreading disease to humans and cattle and threatening the Sudd, the world's largest inland wetlands.[47] In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards oil projects and companies.

## Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[48] Due to CNPC's extensive operations in Sudan's oil industry, it is tied directly to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in the Darfur region or in a potential future conflict with Sudan's south.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement (SPLM).[49]

As all of CNPC's producing concessions, including those in the south, rely on northern infrastructure for export, meaning associated revenue would likely be subject to any revenue sharing agreement struck between the Government of Sudan and the Government of South Sudan. Transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty, and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[50]

The self-determination referendum may also affect CNPC's ownership stakes in its concessions located in southern Sudan. In August 2010, the deputy secretary of the SPLM said that in order to retain its assets, CNPC would have to respect the referendum outcome and develop a stronger relationship with the Government of South Sudan.[51] This was refuted in October 2010 by the SPLM's secretary general, who stated that the company's assets will be protected in the event of independence.[52]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Because CNPC has current exploration, production, and other activities that constitute "Oil-Related Activities" under the targeted Sudan divestment legislative model, it is classified as "Scrutinized" under that model. The company itself is not publicly traded, but its subsidiary, PetroChina, gives it broad exposure to international financial markets. CNPC has been accused of creating PetroChina with the explicit purpose of gaining access to Western capital markets while shielding itself financially from public discontent over its Sudan operations during Sudan's north-south civil war.[53] CNPC pledged that PetroChina would have no involvement in its Sudan-related activities,[54] but the relationship between the companies is such that shareholder investments in PetroChina are inextricably linked to CNPC.

## ENGAGEMENT

Since 2007, CRN has repeatedly requested dialogue and information regarding CNPC's Sudan-related operations and its relationship with its publicly traded subsidiaries. Most recently, CRN reached out to CNPC in October 2010 to discuss issues of security, revenue transparency and the upcoming referendum on southern independence scheduled for January 2011 as part of a CRN priority engagement effort. The company has not responded to these requests.

This lack of response parallels CNPC's engagement vis-à-vis other international non-governmental organizations.[55]

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

CNPC does not have a stand-alone human rights policy, and its materials do not reference internationally recognized human rights. However, the company's president stated in its 2009 Corporate Social Responsibility Report that CNPC "attaches importance to exchanges with stakeholders, in order to harmonize our economic, environmental and social responsibilities."[56] The company's materials suggest that this emphasis on responsibilities is focused on local economic development and environmental stewardship.

### 2. Impact Assessments

No information is available on whether CNPC has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

CNPC reports annually on its social and environmental progress in its Corporate Social Responsibility Report. In its 2009 Report, it lists how its activities align with the indicators laid out by the Global Reporting Initiative (GRI).[57] However, the company does not appear to have fulfilled the GRI human rights screening, training, and reporting.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

CNPC is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UNGC

CNPC is not a UNGC participant. However, the company sent several representatives to the inaugural meeting of the UNGC Sudan Network. CNPC staff also attended the UNGC's Sudan network conference in March 2010.[58]

### EITI

CNPC is not a member of the EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks

No information is available on board or executive-level involvement on human rights-related risks and concerns.

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COMPANY

# CHINA NORTH INDUSTRIES GROUP CORPORATION

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **CHINA** | **MILITARY EQUIPMENT** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**CHINA NORTH INDUSTRIES CORPORATION AKA NORINCO** (wholly owned subsidiary with Sudan-related business operations)
**NORINCO INTERNATIONAL COOPERATION LTD.** (majority owned, publicly traded subsidiary)
**LIAONING HUAJIN TONGDA CHEMICALS CO. LTD.** (majority owned, publicly traded subsidiary, bonds issued)
**SICHUAN NITROCELL CO. LTD.** (majority owned, publicly traded subsidiary)
**CHINA NORTH OPTICAL-ELECTRICAL TECHNOLOGY CO. LTD.** (majority owned, publicly traded subsidiary)
**AKM INDUSTRIAL CO. LTD.** (majority owned, publicly traded subsidiary)

## CONTEXT OVERVIEW

### Industry

Sudan has been host to numerous conflicts featuring large levels of violence targeted against civilians. Since 2003, the Sudanese military and proxy militias have conducted a campaign in Darfur—characterized by the U.S. government as genocide—that has resulted in the deaths of at least 200,000 people. Twenty-two years of civil war between Sudan's north and south concluded in 2005 when the Government of Sudan and the Sudan People's Liberation Movement signed the Comprehensive Peace Agreement (CPA). That war led to the deaths of two million Sudanese.

It is widely predicted that southern Sudan will secede from the north following a January 2011 referendum on independence. Human rights advocates, political leaders and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

It is difficult for companies with arms-related business to do no harm in this context. In the event conflict erupts around the 2011 referendum, their products will play a central role in facilitating violence, increasing the potential for heightened impacts on civilians. Already, heightened tensions have led to troop buildup along north-south border regions and to increased weapons proliferation amongst civilians.[1]

While a United Nations embargo[2] prohibits the provision of military equipment to parties in Darfur, and U.S.[3] and European Union sanctions[4] restrict the trade of arms more generally, materials have repeatedly found their way to restricted areas.[5] Foreign actors have been important partners—military aircraft from Russia and China have been used in attacks in Darfur. China, Iran, Russia, Ukraine and Belarus are reported to be Sudan's main suppliers of small arms.[6]

Recent studies indicate that the transfer of arms to all parts of Sudan continues apace and is in some cases increasing, with patterns, actors and methods of distribution similar to those seen during the last civil war between the north and the south.[7]

### Company

China North Industries Group Corporation (CNGC) is a state-owned enterprise under the direct administration of the Chinese central government.[8] It is the largest weapons manufacturer in China, producing weaponry ranging from small arms to anti-aircraft and anti-missile systems.[9]

Through its subsidiary, China North Industries Corporation (NORINCO), CNGC markets and exports NORINCO brand weapon systems.[10] According to the Small Arms Survey, NORINCO is one of the top five global manufacturers of rifles, sub-machine guns and machine guns.[11]

NORINCO's arms sales meet the definition of "Military Equipment" under the targeted Sudan divestment legislative model, and the company is therefore considered to have "Scrutinized Business Operations."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In 2009 the UN Panel of Experts, which monitors compliance with the 2005 UN arms embargo for Darfur, released a report on the flow of weapons to the region. In it, there were a number of reports on the use, or possible use, of NORINCO-made small arms by numerous parties to the Darfur conflict.[12]

The Panel found that 7.62x54mm rimmed ammunition manufactured by NORINCO and China Xinshidai Company was "omnipresent among Darfurian [rebel] groups."[13] In addition, the QLZ-87 grenade launcher, manufactured by NORINCO, was among the weapons identified in attacks by rebel groups in Darfur, including the Justice and Equality Movement (JEM).[14]

While the Panel found that most weapons in use in Darfur were manufactured before the implementation of the UN arms embargo (and so may have arrived in Sudan as part of legitimate shipments to the Government of Sudan), it also found that almost all documented ammunition in Darfur had been manufactured post-arms embargo. However, sales of 155mm howitzers by NORINCO to the Government of Sudan were reported as recently as January 2009.[15]

## POTENTIAL CONCERNS AND RISKS

### Use of company product for military purposes

Though the existing UN arms embargo prohibits the sale of military materials if for use in Darfur, it allows other sales to the Sudanese government, and there is a risk that NORINCO's products—even if sold in technical compliance with the embargo—will ultimately assist military actions in Darfur or other areas of Sudan. The Sudanese government has regularly moved weapons and military equipment into Darfur despite the UN embargo, and a UN panel of experts concluded in October 2009 that numerous other armed actors in Darfur continued to violate the embargo as well.[16]

In an attempt to determine at what point weapons had been transferred to Darfur, the UN Panel of Experts requested NORINCO's assistance in tracing the chains of ownership. At the time the UN report was released, NORINCO had not responded to the UN's request.[17]

A new report by the Panel of Experts in October 2010 revealed that twelve of eighteen types of bullet casings found at scenes of attacks on UN/African Union peacekeepers in Darfur were of Chinese manufacture. The report and the names of the bullets' manufacturers have yet to be released, but given its prior sales to Sudan, there is concern that NORINCO will be implicated.[18]

Unlawful arms trades, in which Sudan is the intended final destination for the weapons involved, are also of concern. In 2007, Italian police broke up an illicit arms deal brokered between Italian traders and Libyan officials. The deal, valued at U.S. $64 million, was reportedly for 500,000 NORINCO assault rifles and 10 million rounds of ammunition. Though NORINCO reportedly ordered end-user certificates verifying Libya as the weapons' destination, several factors indicated they were destined for third parties in African conflict zones.[19] This suggests the possibility that CNGC and NORINCO are willing to engage in arms deals without proper due diligence regarding the weapons' end destination or the legality of the trade.

NORINCO has previously been the target of an import ban as a result of violating U.S. nonproliferation statues.[20] Since the ban expired in 2005, NORINCO has reportedly worked to strengthen its export controls and improve its nonproliferation processes.[21]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Despite CNGC's status as a state-owned enterprise, U.S. investors may be exposed to CNGC/NORINCO investments through its various majority owned, publicly traded subsidiaries, such as NORINCO International Cooperation Limited. While none of these subsidiaries are listed outside of China (which means individual investors outside China cannot directly trade their stock), U.S. investors may have exposure through a Qualified Foreign Institutional Investor (QFII).

NORINCO's arms sales to the Sudanese government qualify as the supply of "Military Equipment" under the targeted Sudan divestment legislative model, and the company is therefore classified as "Scrutinized."

## ENGAGEMENT

CRN has sent regular inquiries since 2007 requesting dialogue and further information regarding the company's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

NORINCO has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether NORINCO has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

NORINCO is not a UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

# NOTES: CHINA NORTH INDUSTRIES GROUP CORPORATION

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COMPANY

# CHINA PETROCHEMICAL CORPORATION

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **CHINA** | **OIL** | **PRIORITY ENGAGEMENT** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**ZPEB CORPORATION** (wholly owned subsidiary with Sudan-related operations)
**CHINA INTERNATIONAL UNITED PETROLEUM AND CHEMICALS** (wholly owned subsidiary)
**SINOPEC INTERNATIONAL PETROLEUM SERVICE CORP** (wholly owned subsidiary with Sudan-related operations)
**KINGDREAM PLC** (majority owned, publicly traded subsidiary)
**SINOPEC FINANCE CO. LTD.** (majority owned subsidiary, bonds issued)
**CHINA PETROLEUM AND CHEMICAL CORPORATION AKA SINOPEC CORP** (majority owned, publicly traded subsidiary, bonds issued)
**SINOPEC SHANGHAI PETROCHEMICALS LTD.** (majority owned, publicly traded subsidiary)
**SINOPEC KANTON HOLDINGS LTD.** (majority owned, publicly traded subsidiary)
**SINOPEC YIZHENG CHEMICAL FIBRE CO. LTD.** (majority owned, publicly traded subsidiary)

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

## Company

The China Petrochemical Corporation (Sinopec Group) is one of the largest oil companies in China and wholly owned by the Chinese government.[3] Sinopec Group has an equity investment in the Petrodar consortium and serves as a major oil field services provider.[4] This extensive involvement in Sudan's oil industry leads to potential association with numerous concerns, including harmful environmental and social impacts linked to exploration and production activities and insecurity in concession areas.

As Sinopec Group is currently involved in exploration, infrastructure development, and other activities defined as "Oil-Related Activities" under the targeted Sudan divestment legislative model, it is classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Since 2000, Sinopec Group has held a 6% stake in the Petrodar Operating Company (Petrodar), which operates blocks 3 and 7. Petrodar's fields produce nearly 300,000 barrels of Dar Blend crude per day.[5]

In 2004 the Sinopec Group, as a member of a consortium headed by MMC Corporation Berhad and including Oman Construction Company LLC, was awarded a U.S. $65.6 million contract to build a 490 km section of the oil export pipeline from blocks 3 and 7 to Port Sudan, which was completed in 2005.[6]

One of Sinopec Group's subsidiaries is Zhongyuan Petroleum Exploration Bureau International (collectively ZPEB).[7] This subsidiary's overseas projects are managed by its internal division ZPEB. ZPEB's portfolio includes ZPEB Sudan, reportedly the largest oil engineering service provider in Sudan, working with the China National Petroleum Corporation (CNPC), the Greater Nile Petroleum Operating Company (GNPOC), and Petrodar.[8] ZPEB Sudan is involved in multiple aspects of oilfield services in Sudan, including seismic data acquisition and processing, wireline logging, oilfield surface construction, and pipeline-laying.[9]

ZPEB Sudan's current projects include the provision of drilling rigs and crews for GNPOC operations.[10] Alongside local company Asawar Co., ZPEB Sudan also is constructing oil field infrastructure in oil block 6, as well as a pipeline linking Block 6 with blocks 1, 2, and 4.[11] This pipeline is set to be completed in March 2011.[12]

ZPEB Sudan also has been contracted to drill several new oil wells and construct four new drilling rigs in order to increase production of the Petrodar consortium.[13] The company also continues to provide workover rigs for Petrodar.[14]

In February 2010, ZPEB announced that it had been awarded seismic survey contracts by its clients in blocks 9 and 12A in Sudan.[15] According to satellite photos commissioned by UK-based non-governmental organization Global Witness, it appears that Block 12A was under exploration in late 2009 and early 2010.[16] It is possible that ZPEB was involved in this exploration activity.

China International United Petroleum and Chemicals Co. Ltd (Unipec), Sinopec Group's trading arm, is one of China's four state-owned oil trading firms. Unipec has purchased numerous cargos of both Dar and Nile blend crude oil from Sudan in the past. These purchases continued in 2010, when Unipec purchased 1.2 million barrels of Dar Blend and 600,000 barrels of Nile Blend.[17]

## POTENTIAL CONCERNS AND RISKS

### General potential for increasing instability and violence following anticipated southern secession in January 2011

There is a history of direct connections between the oil industry and conflict in Sudan. This is particularly true in the context of civil war between Sudan's north and south. It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence, and that the oil industry and its infrastructure might be assets over which the north and south will battle.

## Impact of oil exploration activities on local populations

Oil activities in southern Sudan have been associated with human rights abuses against populations living in concession areas, and there is a risk such abuses may be repeated, especially in the context of renewed conflict in Sudan. During the civil war fought between Sudan's north and south from 1983 to 2005, security forces associated with certain oil consortia were linked with numerous human rights violations, including forced displacement and violence against communities in project areas.

Concession areas currently under the control of Petrodar were the location of Sudanese government attacks on civilian populations during the civil war. These attacks appear to have been part of a strategy designed to clear the exploration areas of their local inhabitants. Beginning in 1994, villages in the Adar Yale and Khor Adar area were repeatedly attacked in a similar manner, first by aircraft and then by land-based forces. These attacks in Upper Nile displaced at least 12,000 people prior to Petrodar's entrance into the concession. Attacks on villages in the concession area continued until 2004, resulting in the destruction of most villages located near oil service roads.[18]

Oil exploration in Petrodar's concessions has also deeply affected the ability of local residents to access unpolluted water sources for personal and agricultural use. Roads built to service oil installations have shifted the direction of water flows, causing localized droughts and flooding in the concession areas.[19]

## Risk of violence in association with oil exploration activities

It appears that the Sudanese military has used force to secure concession areas in advance of Sinopec's exploration activities in Block 12A.[20] In August 2008, Sudan Armed Forces launched major military operations against rebels in North Darfur, where foreign teams were reportedly engaged in exploration activities.[21]

This risk is additionally exacerbated by opposition of the rebel Justice and Equality Movement (JEM) to oil exploration in Darfur while the conflict is ongoing. As JEM has kidnapped oil workers in the past, this may increase the risk that Sinopec employees will be targeted by rebels operating throughout Darfur.

## Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[22] Sinopec Group's extensive operations in Sudan's oil industry directly tie the company to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in the Darfur region or in a potential future conflict with Sudan's south.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement (SPLM).[23]

Though Sinopec Group's producing concession is located in the south, it relies on northern infrastructure for export, meaning associated revenue likely would be subject to any revenue sharing agreement struck between the Government of Sudan and an independent south. Transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty, and instability. Global Witness, a

UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[24]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As Sinopec Group is currently involved in exploration, infrastructure development, and other activities defined as "Oil-Related Activities" under the targeted Sudan divestment legislative model, it is classified as "Scrutinized."

## ENGAGEMENT

Since 2007, CRN has repeatedly requested dialogue and information regarding Sinopec Group's Sudan-related operations as well as those conducted by its publicly traded subsidiaries. Most recently, CRN reached out to Sinopec in October 2010 to discuss issues of security, revenue and the upcoming referendum on southern independence scheduled for January 2011 as part of a CRN priority engagement effort. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Sinopec Group does not publish a human rights policy, however, the company's subsidiary, Sinopec Corp, expresses its support and respect for internationally-proclaimed human rights in its 2009 Sustainability Report.[25] Sinopec Corp does not detail what it considers internationally-proclaimed human rights and appears to focus on labor rights.

### 2. Impact Assessments

Sinopec Group states that environmental impact assessments were conducted on every construction site.[26] However, the company does not publish the results of these assessments, or information on whether it conducts social impact assessments in advance of its activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

Sinopec Group has indicated that it follows the GRI reporting guidelines in its 2009 Corporate Social Responsibility Report.[27] The company's subsidiary, Sinopec Corp, also uses the GRI guidelines in its 2009 Corporate Social Responsibility Report. However, both companies appear to focus more on labor and employee rights as opposed to the impact that its operations have on local communities.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Sinopec is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

While Sinopec Group is not a UNGC participant, its subsidiary, Sinopec Corp. has been a member since 2004.[28]

### EITI

Sinopec is not an EITI participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: CHINA PETROCHEMICAL CORPORATION

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COMPANY

# CHINA POLY GROUP CORPORATION

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **CHINA** | **OIL, MINING, AND CIVIL ENGINEERING AND CONSTRUCTION** | **PRIORITY ENGAGEMENT** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**POLY (HONG KONG) INVESTMENT LIMITED** (majority owned, publicly traded subsidiary)

## CONTEXT OVERVIEW

### Industry

Sudan is believed to have significant mineral resources, but it is not a significant mineral producer. The country's mining industry is relatively underdeveloped,[1] with mining and quarrying operations responsible for only 0.2% of the national GDP.[2]

This may change, given the northern government's increasing efforts to diversify its economy in advance of a January 2011 referendum on southern independence. It is widely predicted that southern Sudan will vote to secede from the north in 2011, a scenario which presents the north with the possibility of losing a great percentage of its most important source of revenue, oil. Southern Sudan holds an estimated 85% of the country's oil, which provides the north with 63% of its revenue and 15.5% of its GDP.[3]

As part of its efforts to diversify, the northern government plans to more than double its gold production to 50 metric tons annually in 2011.[4] This would increase the overall importance of gold as a revenue stream for the Sudanese government, which is said to funnel much of its income to the military, which has been connected directly to violent conflict in Darfur and a civil war between Sudan's north and south that resulted in two million deaths.[5] In addition to gold, Sudan also is reportedly rich in silver, lead, zinc, copper, iron, and barium. Sudan's Mining Minister stated in November 2010 that the country is experiencing "a rush" from foreign firms interested in gold exploration, including from Australia, Europe, and the United States, and that it had signed 45 agreements in 2010 and plans on signing 50 more in 2011.[6]

Unlike many of Sudan's oil-related projects, mining activities have thus far taken place primarily in largely unpopulated areas in the northeast and consequently are generally not associated with large scale displacement, security risks, and other negative impacts on local communities. Artisanal mining is an important source of income for some Sudanese, however, and fatal violence has broken out when the government has sought to remove miners from promising tracts allocated to foreign mining firms.[7] To achieve its ambitious increase in gold production, the government plans to tighten regulations on small-scale miners, and expand concessions to foreign mining companies, creating potential for increased tension and similar conflicts in the future.[8]

The "rush" to sign more mining agreements may lead to activities in areas other than Sudan's northeast—for example the Nuba mountains—meaning displacement, potential for insecurity, and other negative local impacts could be of concern. Sudan's Mining Minister announced recently that new concessions will be offered in 2011 in the Darfur region, an area that has been the site of targeted violence against civilians (identified as genocide by the U.S. government), the deaths of at least 200,000 since 2003, and ongoing clashes between armed groups and government forces.

### Company

China Poly Group Corporation (China Poly Group) is a China-based company focused on mineral exploitation, trade, culture, and real estate.[9] The company currently holds a mining license in Sudan, which may lead to concerns about instability linked with mining activities. These concessions are classified as "Mineral Extraction Operations" under the targeted Sudan divestment legislative model; however more information on China Poly Group's activities is required to determine if it should be classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

China Poly Group has been linked to several types of projects in Sudan, but details and corroboration are scarce. It was reported that Sudan's Ministry of Energy and Mining approved China Poly Group to conduct petroleum exploration activities in Sudan in 2007, and that the company and Sudan's Minister of Finance of Economic Planning met to discuss interest in embarking on investment, commercial, and petroleum activities in Sudan."[10]

China Poly Group previously partnered with the government-owned GIAD corporation and Sudan-based Danfodio Holding Company in gold mining ventures in the Bayoda Desert, iron and chrome mining in Red Sea State, and oil exploration.[11]

In May 2009, it was reported that Sudan's Ministry of Energy and Mining awarded one of China Poly Group's subsidiaries, China Poly Technology, an exploration license for mining gold in the Gibait area of Sudan's Red Sea State.[12]

China Poly Group may be involved in the sale of weapons to Sudan. In July 2009, it was reported that Sudan had acquired a number of WS-2 multi-launch rocket systems from China, providing it with the most powerful long-range attack system in Africa. China Poly Group is one of the only exporters of the WS-2 vehicle. The company has refused to comment on reports of this sale, and stated that any transactions with Sudan were conducted before sanctions were imposed on the country.[13]

The company also has undertaken civil engineering and construction projects in Sudan, including the Rufaa Bridge[14], the Duweimu Bridge (also known as the "Ad-Duwaym Bridge"),[15] and the Sudan Umm Kadada Road—a road that will link El Fasher (the capitol of North Darfur) with Um Kadada town.[16]

## POTENTIAL CONCERNS AND RISKS

### Potential for insecurity and violence due to tension between artisanal mining and government efforts to expand operations

China Poly Group's mining concessions are located in a largely unpopulated area in the northeast where displacement, security risks, and other negative impacts on local communities are of less concern than they might be in other regions. There would be reason for concern, however, if the company acquired concessions in other areas, given that artisanal mining is an important source of income for some Sudanese, and fatal violence has broken out when the government has sought to remove miners from promising tracts allocated to foreign mining firms.[17]

### Revenue stream supporting government capacity for violence

In the event of South Sudan's secession, the Government of Sudan stands to lose 60% to 75% of its revenue. As part of a strategy to diversify its revenue stream, the government has placed an increased emphasis on its output of gold ore, hoping to double its annual production by 2012.[18] As Sudan's government seeks to increase its revenue from gold production, China Poly Group might be tied to an increasingly significant revenue stream that facilitates the Sudanese government's capacity for violence, whether in the Darfur region or in a potential conflict with Sudan's south.

### Use of company product for military purposes

China Poly Group's involvement in selling weapons to Sudan has not been confirmed, but the possibility raises concerns.

It is difficult for companies with arms-related business to do no harm in regard to arms sales to Sudan. In the event conflict erupts around the 2011 referendum, their products will play a central role in facilitating violence, increasing the potential for heightened impacts on civilians. Already, heightened tensions have led to troop buildup along north-south border regions and to increased weapons proliferation amongst civilians.[19]

Though the existing United Nations arms embargo prohibits the sale of military materials if for use in Darfur, it allows other sales to the Sudanese government, and there is a risk that China Poly Group's products will ultimately assist military actions in Darfur or other areas of Sudan. The Sudanese government has regularly moved weapons and military equipment into Darfur despite the UN embargo, and a UN panel of experts concluded in October 2009 that numerous other armed actors in Darfur continued to violate the embargo as well.[20]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

While it is on CRN's watch list, more information on the scope of China Poly Group's work is required to determine whether the company should be classified as "Scrutinized" under the targeted model.

## ENGAGEMENT

Since 2009, CRN has sent regular inquiries requesting dialogue and further information regarding China Poly Group's Sudan-related operations. Most recently, CRN reached out to China Poly in October 2010 to discuss issues of security, revenue transparency and the upcoming referendum on southern independence scheduled for January 2011 as part of a CRN priority engagement effort. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

China Poly Group has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether China Poly Group has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

China Poly Group is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

China Poly Group is not a UNGC participant.

### EITI

China Poly Group is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

# NOTES: CHINA POLY GROUP CORPORATION

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COMPANY

# CITADEL CAPITAL

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **EGYPT** | **OIL, MINING, AND POWER** | **PRIORITY ENGAGEMENT** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Citadel Capital is a publicly traded, Cairo-based private equity firm focused on investment in the Middle East and Africa.[3] It currently lists investments in Sudan totaling near $900 million,[4] including interests in the petroleum, mining, agriculture, cement, and logistics industries.[5] It has stakes in several oil blocks that are not currently in production but have the potential to provide the Sudanese government with a revenue stream. One of the blocks is located in Jonglei state, an area that has been the site of recent violence and instability and that may experience further instability and conflict leading up to or following southern Sudan's referendum on independence in January 2011.

Citadel Capital's petroleum investments do not appear to exceed 10% of its total investment in Sudan, the threshold for constituting "Scrutinized Business Operations" under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Citadel Capital's activities in Sudan's petroleum sector are conducted through its exploration and production platform, Nile Valley Petroleum Limited (NVPL), which has acquired participating interests in blocks A, 9, and 11.

According to Citadel Capital's website, NVPL purchased 58% of the Block A concession from Pakistan's Zaver Petroleum Corporation (Zaver Petroleum) in June 2008.[6] After this purchase, Zaver Petroleum and Sudapet continued to hold respective stakes of 25% and 17% in Block A through the Sudapak Operating Company (Sudapak).[7] In November 2009, a Citadel Capital representative informed CRN that NVPL currently holds a 38% stake in Block A, but did not clarify Sudapak's specific holdings.[8]

NVPL currently controls 36% of blocks 9 and 11, in which Sudapak (Zaver Petroleum and Sudapet) holds 49% and 15%, respectively.[9] According to a Citadel Capital representative, Zaver Petroleum controls the decision-making process for activities within blocks A, 9 and 11.[10] Zaver reportedly is seeking a buyer for its Sudan interests, but it is unclear if this will affect NVPL's holdings of these blocks,[11] as NVPL has the option to purchase an additional 28% of blocks 9 and 11.[12]

According to statements made by Citadel Capital in March 2010, oil has not yet been discovered in the three blocks held by NVPL.[13] Sinopec subsidiary Zhongyuan Petroleum Exploration Bureau International (ZPEB) announced in February 2010 that it had been awarded seismic survey contracts by clients operating in Block 9, suggesting that the block remains under exploration.[14]

In a November 2009 conversation with CRN, a Citadel Capital representative stated that the bulk of its $900 million in Sudan-related investment falls outside of the hydrocarbon sector.[15] This includes investments in the Khartoum-based Sudanese Egyptian Bank, the National River Port Management Company, ASEC Cement, the Sudanese Railway Corporation, and significantly increased investment in Sudan's agricultural industry. Citadel Capital also has a minority share in ASCOM Precious Metals, which has acquired a mining exploration concession in eastern Sudan near the border with Ethiopia.[16] Through its investments in TAQA Arabia and ASEC Holdings, Citadel Capital also has a minority share in the recently completed 42 megawatt oil-fired generating station at the Takamol Cement plant in Falhalb, Sudan.[17] The company plans to open offices in South Sudan to support its growing investment in the region.[18]

## POTENTIAL CONCERNS AND RISKS

### Ongoing local instability and potential for increasing instability, violence, and insecurity following anticipated southern secession in January 2011

While Blocks 9 and 11 are in northern Sudan, NVPL's Block A concession is located partially in Jonglei state, an unstable area that has experienced increasing violence and insecurity in recent years. Armed conflict during 2009 and 2010 resulted in at least 1,800 deaths, and in July 2009 the United Nations Mission in Sudan (UNMIS) acknowledged, "clear grounds for concern about the security situation" in areas within Block B, which borders Block A.[19] Intertribal violence in Jonglei State continues in 2010.[20] Though recent violence in the region does not appear to be related to oil activities, it could lead to or require the presence or use of security forces in the event the consortium commences exploration activities.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Because the Government of Sudan and the regional Government of South Sudan currently rely on oil for 63% and 98% of their respective revenues, and the regions have not yet stuck an agreement on sharing revenue in the case of southern secession, many fear that the referendum and secession might trigger violence between the north and south. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

Of concern is the history of human rights abuses associated with the oil industry during conflict in Sudan. During the war between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks on, and intentional targeting of, civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. The potential for the return of major conflict between Sudan's north and south raises concerns about a return to this kind of violence in NVPL's Block A concession area.

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region.[21] If any of Citadel Capital's blocks enter production, the company might be tied to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south. Such a stream would be even more material to the Sudanese government in the case of southern secession, given that the north stands to lose 60% to 75% of its revenue in that scenario.[22]

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement.[23] The CPA brought an end to 22 years of civil war between Sudan's north and south, which had led to the deaths of two million Sudanese. NVPL's Block A concession straddles the boundary between Sudan's north and south, and any revenue it produced likely would be subject to a revenue sharing agreement with the south. Transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[24]

### Potential impacts of exploration activities on local populations

Oil exploration in Sudan has affected local water supplies and led to population displacement in the past. Land is a scarce resource in Sudan, and growth in human and livestock populations has increased completion for it and worsened its degradation, already a problem due to desertification caused by climate changes and poor livestock, arboricultural and farming techniques. The increasing scarcity of land has increased tensions between pastoralists and agriculturalists, which are heightened by an influx of arms.[25] There is a risk that oil exploration could increase land degradation and population displacement, create or exacerbate tensions between communities, and lead to anger towards related oil projects and companies as well. Given recent insecurity in the Jonglei region and potential insecurity following the 2011 referendum, there is also the possibility that exploration activities will require the presence or use of security forces, which have in the past been associated with human rights abuses.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Under the targeted Sudan divestment legislative model, a company's activities relating to oil, mineral extraction, and power production are considered to be "Scrutinized Business Operations"—thus qualifying the company for potential divestment measures—if the activities constitute more than 10% of the company's investments in Sudan. Citadel Capital's current activities appear to fall short of that, meaning it is not considered "Scrutinized" under the targeted Sudan divestment legislative model. Though the company has total investments amounting to about $900 million in Sudan, its investments in sectors covered under the targeted legislative model (via ASCOM Mining, NVPL, and Berber for Electrical Power) amount to $67.9 million or 7.5% of its operations.[26]

## ENGAGEMENT

CRN met with a Citadel Capital representative in April and November 2009 regarding the Sudan-related business operations of its portfolio companies. Most recently, CRN reached out to Citadel Capital in October 2010 to discuss issues of security, revenue transparency and the upcoming referendum on southern independence scheduled for January 2011 as part of a CRN priority engagement effort. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Citadel Capital has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether Citadel Capital has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Citadel Capital is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

Citadel Capital is not UNGC participant.

### EITI

Citadel Capital is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: CITADEL CAPITAL

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COMPANY

# DINDIR PETROLEUM INTERNATIONAL

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **JORDAN** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Dindir Petroleum International (Dindir Petroleum) is a subsidiary of the Jordan-based Engineering & Development (EDGO) Group.[3] The company holds stakes in two oil concessions in Sudan, blocks 12A and 13 and provides oil field services to other petroleum companies. As it is not publicly traded, Dindir Petroleum does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In November 2006 Dindir Petroleum acquired a 15% stake in Block 12A, which extends from upper North Darfur to the Libyan border.[4] The block is operated by the Greater Sahara consortium, comprised of Al-Qahtani & Sons Group of Companies (Al-Qahtani &

Sons; 33%), Yemen's Ansan Wikfs Investments Limited (Ansan Wikfs; 20%), Sudan's Sudapet (20%), Sudan's Hi-Tech Petroleum Group Co. Ltd (7%), and All Africa Investment Corp (5%). The companies paid U.S. $43 million to acquire drilling rights in Block 12A.[5] According to satellite photos commissioned by the UK-based non-governmental organization Global Witness, Block 12A was under exploration in late 2009 and early 2010.[6]

In June 2007, Dindir Petroleum also obtained a 10% stake in the Coral Petroleum Operating Company (CPOC), which operates the offshore Block 13.[7] Dindir Petroleum's partners in this block include China National Petroleum Corporation (CNPC; 40%), Indonesia's state-owned Pertamina (15%), Sudan's state-owned Sudapet (15%), Nigeria-based Express Petroleum and Gas Company (10%) and Nigeria-based Africa Energy (10%).[8] The CPOC partners were expected to complete exploration work within three years after signing the initial contract.[9] Sudapet states that Block 13 operators had acquired 2D marine seismic data, reprocessed old data and acquired gravity and magnetic surveys by the end of 2008. As of November 2010, Block 13 is reportedly still in the exploration stages, and at least two exploration wells have been drilled.[10]

Dindir Petroleum also states that it provides drilling and oil field services in Sudan.[11] In October 2010, the company was awarded a US $12.1 million contract to build one new drilling rig for the Petrodar consortium, which operates blocks 3 and 7. This contract is expected to run until February 2012.[12]

## POTENTIAL CONCERNS AND RISKS

### General potential for increasing instability and violence following anticipated southern secession in January 2011

There is a history of direct connections between the oil industry and conflict in Sudan. This is particularly true in the context of civil war between Sudan's north and south. It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence, and the oil industry and its infrastructure might be assets over which the north and south will battle. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively. The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, the oil industry and its infrastructure have been identified as assets over which the north and south are likely to battle.

### Risk of violence in association with oil exploration activities

Oil activities in Sudan have been associated with human rights abuses against populations living in concession areas, and there is a risk such abuses may be repeated, especially in the context of renewed conflict in Sudan. During the civil war fought between Sudan's north and south from 1983 to 2005, security forces associated with certain oil consortia were linked with numerous human rights violations, including forced displacement and violence against communities in project areas.

It appears that the Sudanese military has used force to secure concession areas in advance of Dindir Petroleum's exploration activities in Block 12A.[13] In August 2008, Sudan Armed Forces launched major military operations against rebels in North Darfur, where foreign teams were reportedly engaged in exploration activities.[14]

This risk is exacerbated by opposition of the rebel Justice and Equality Movement (JEM) to oil exploration in Darfur while the conflict is ongoing. As JEM has kidnapped oil workers in the past, this may increase the risk that Dindir Petroleum's employees will be targeted by rebels operating throughout Darfur.

The Block 13 concession in and around the Red Sea is unlikely to raise similar concerns about negative affects on the local populations.

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[15] If blocks 12A or 13 enter production, Dindir Petroleum may be tied to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south. Such a revenue stream would be even more material to the Sudanese government in the case of southern secession, given that the north stands to lose 60% to 75% of its revenue in that scenario.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement (SPLM).[16]

As Dindir Petroleum's concessions are in Sudan's north, associated revenue likely would not be subject to any revenue sharing agreement struck between the Government of Sudan and an independent south. Nevertheless, transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[17]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As of November 2010, Dindir Petroleum is not implicated under the targeted Sudan divestment legislative model because it is not publicly traded.

## ENGAGEMENT

Since 2007, CRN has sent regular inquiries to Dindir Petroleum and its parent, EDGO Group, requesting dialogue and further information about the company's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Dindir Petroleum has not published a human rights policy or referenced human rights in its public materials.

### 2. Impact Assessments

No information is available on whether Dindir Petroleum has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Dindir Petroleum is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

Dindir Petroleum is not a UNGC participant.

### EITI

Dindir Petroleum is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: DINDIR PETROLEUM INTERNATIONAL

[1] Jeffrey Gettleman, “War in Sudan? Not Where the Oil Wealth Flows,” New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

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[17] “Fuelling Mistrust: The Need for Transparency in Sudan’s Oil Industry,” Global Witness, September 7, 2009, at http://www.globalwitness.org/library/oil-production-figures-underpinning-sudan%E2%80%99s-peace-agreement-don%E2%80%99t-add.

COMPANY

# DONGFENG MOTOR GROUP CO., LTD

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **CHINA** | **MILITARY EQUIPMENT** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan has been host to numerous conflicts featuring large levels of violence targeted against civilians. Since 2003, the Sudanese military and proxy militias have conducted a campaign in Darfur—characterized by the U.S. government as genocide- that has resulted in the deaths of at least 200,000 people. Twenty-two years of civil war between Sudan's north and south concluded in 2005 when the Government of Sudan and the Sudan People's Liberation Movement signed the Comprehensive Peace Agreement (CPA). That war led to the deaths of two million Sudanese.

It is widely predicted that southern Sudan will secede from the north following a January 2011 referendum on independence. Human rights advocates, political leaders and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

It is difficult for companies with arms-related business to do no harm in this context. In the event conflict erupts around the 2011 referendum, their products will play a central role in facilitating violence, increasing the potential for heightened impacts on civilians. Already, heightened tensions have led to troop buildup along north-south border regions and to increased weapons proliferation amongst civilians.[1]

While a United Nations embargo[2] prohibits the provision of military equipment to parties in Darfur, and U.S.[3] and European Union sanctions[4] restrict the trade of arms more generally, materials have repeatedly found their way to restricted areas.[5] Foreign actors have been important partners—military aircraft from Russia and China have been used in attacks in Darfur. China, Iran, Russia, Ukraine and Belarus are reported to be Sudan's main suppliers of small arms.[6]

Recent studies indicate that the transfer of arms to all parts of Sudan continues apace and is in some cases increasing, with patterns, actors and methods of distribution similar to those seen during the last civil war between the north and the south.[7]

### Company

Dongfeng Motor Group Co., Ltd. (DFL) is a China-based producer and exporter of commercial and passenger vehicles and equipment.[8] Various reports suggest that it has sold military-grade vehicles to the Government of Sudan. DFL's military-grade transport vehicles meet the definition of "Military Equipment" under the targeted Sudan divestment legislative model, and it is therefore considered to have "Scrutinized Business Operations."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

According to the United Nations Panel of Experts established to monitor an arms embargo on Darfur,[9] DFL has sold military-grade vehicles to the Government of Sudan.[10] While different reports relating to this matter have used multiple company names (for example, Dongfeng Automobile Import and Export Limited, Dongfeng, and Dongfeng Motor Corporation), CRN believes DFL is the relevant entity involved in the Sudan-related activities discussed below.[11] In 2006, the United Nations Panel of Experts reported the following:

> "In August [2005], during its investigations, the Panel saw a shipment of green military trucks at Port Sudan. New green trucks of a similar type were also seen on the Sudanese air force premises in Darfur in October. The Panel has begun a process trace in order to verify the end-use and final destination of the vehicles that were seen at Port Sudan. The investigation showed that a total of 222 vehicles (212 military trucks of model EQ2100E6D and 10 chassis workshop of model EQ1093F6D) were procured from Dongfeng Automobile Import and Export Limited in China, makers of military equipment and vehicles. The consignee was the Ministry of Finance and National Economy of the Sudan. Further reports received indicated that the vehicles were consigned on behalf of the Ministry of Defence."[12]

The presence of DFL military vehicles in Darfur was documented in July 2008, when a BBC investigative program found DFL military vehicles, whose plates and markings showed a post-embargo manufacture date, in the possession of a Darfur rebel group that had reportedly captured them from the Sudanese military.[13] These vehicles, which had been carrying anti-aircraft guns, were from a set of army trucks that the UN determined had arrived in Sudan after the arms embargo was put in place in 2004.[14] The company BBC named in its investigation was "Dong Feng," and in images the vehicles' plates read "Dongfeng Motor Co. of China." Information CRN obtained in April 2010 has led CRN to believe DFL was the relevant entity associated with the vehicles.[15]

Cummins Inc. (Cummins), an American company involved in a joint venture with Dongfeng Automobile Co. Ltd. (DFAC), a DFL affiliate, received significant negative publicity after the release of the UN Panel of Experts' findings. The Panel found that Cummins engines were in the vehicles in Darfur.[16] According to Cummins, the engines in question, which were installed in the 212 EQ2100E6D trucks, were produced by Dongfeng-Cummins Engine Company (DCEC; the joint venture between Cummins and DFAC) and sold to DFAC, which then sold them to DFL.[17] DFL then installed the engines in the trucks, and finally sold them to the Sudanese government.[18]

China's Special Representative on Darfur said that "Dongfeng Motor Corporation" (which CRN believes is DFL) exported 212 trucks to Sudan in 2005, but denied claims linking these vehicles to attacks in Darfur and insisted that its vehicles were sold to the Government of Sudan for civilian use.[19] The representative did not refute the possibility that the Sudanese government could have transformed the vehicles for military purposes.

Reports indicate that DFL or entities related to it are involved in Sudan-related joint ventures, and CRN is seeking to clarify which Dongfeng corporate structures may be involved. According to a March 2008 Bloomberg report, Nissan of Japan and DFAC co-own a joint venture called Zhengzhou Nissan, which has an auto plant in Sudan.[20] DFAC is a subsidiary of the Dongfeng Motor Co., Ltd[21] which is itself a joint venture between DFL and Nissan Motor Co. Ltd.[22]

At least one source has reported that a joint venture between Nissan and a Dongfeng entity supplied military trucks to the Sudanese government in 2006.[23] "Chinese Dongfeng Motor," not Zhengzou Nissan, was named. CRN has not found record of a joint venture of this name, and it is possible the sales were made through Zhengzou Nissan instead.

CRN also is trying to ascertain whether trucks with model numbers EQ2100E6D and EQ1093F6D, or other

DFL trucks and equipment are still being sold to the Government of Sudan. Although Cummins has provided valuable information regarding the sale of DCEC engines to DFL, it does not track DFL product lines and their destinations.[24]

## POTENTIAL CONCERNS AND RISKS

### Use of company product for military purposes

Though the existing United Nations arms embargo prohibits the sale of military materials if for use in Darfur, it allows other sales to the Sudanese government, and there is a risk that DFL's products will ultimately assist military actions in Darfur or other areas of Sudan. The Sudanese government has regularly moved weapons and military equipment into Darfur despite the UN embargo, and a UN panel of experts concluded in October 2009 that numerous other armed actors in Darfur continued to violate the embargo as well.[25]

There is evidence that DFL trucks exported to Sudan have been retrofitted for offensive use in Darfur. Eyewitnesses alleged that during a December 2007 attack by government soldiers in West Darfur, DFL vehicles fitted with Chinese-made anti-aircraft guns were used to fire at civilian dwellings, killing a number of women.[26]

The public outcry following the UN Panel of Experts' findings triggered an immediate response from Cummins, which has implemented internal export controls to ensure transactions that would result in its products being exported to Sudan are banned.[27] The company informed CRN that it would be feasible for DFAC or DFL to produce its own engines for trucks sold to Sudan.[28] DFL failed to answer directly any inquiries regarding its sale of military vehicles to Sudan.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Companies that supply "Military Equipment" within Sudan are considered "Scrutinized" under the targeted Sudan divestment legislative model. Because "Military Equipment" includes military-grade vehicles and other equipment that readily may be used for military purposes, DFL's sales to the Sudanese government appear to qualify it as "Scrutinized" under the model.

## ENGAGEMENT

Since 2007, CRN has sent regular inquiries to Dongfeng requesting dialogue and information regarding the company's Sudan-related operations. CRN has not received a response.

CRN also sent an inquiry in February 2010 to Zhengzhou Nissan to seek clarification regarding its operations in Sudan, and held dialogue with Cummins Inc., an American company in a joint venture with a Dongfeng entity. Cummins provided further clarification regarding which Dongfeng arm has been involved in the sale of military-grade vehicles to the Sudanese government.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

DFL and other Dongfeng entities have not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether DFL and other Dongfeng entities have conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

DFL is not UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: DONGFENG MOTOR GROUP CO., LTD

[1] "North, south Sudan trade accusations of troop build-up," Reuters, September 27, 2010, at http://www.alertnet.org/thenews/newsdesk/HEA749890.htm; "Report: Arms Race in Sudan, Two Millions Weapons Among Civilians," Enough Project website, December 18, 2009, at http://www.enoughproject.org/blogs/report-arms-race-sudan-2-million-weapons-among-civilians.

[2] Mike Lewis, Skirting the Law: Sudan's Post-CPA Arms Flows, Small Arms Survey HSBA Working Paper 18, September 2009, Geneva.

[3] Sudan: Overview of Sanctions," U.S. Department of the Treasury, Office of Foreign Assets Control, July 25, 2008, at http://www.treas.gov/offices/enforcement/ofac/programs/sudan/sudan.pdf.

[4] Mike Lewis, Skirting the Law: Sudan's Post-CPA Arms Flows, Small Arms Survey HSBA Working Paper 18, September 2009, Geneva.

[5] "Report of the Panel of Experts established pursuant to resolution 1591 (2005) concerning the Sudan," United Nations, October 29, 2009, at http://www.un.org/sc/committees/1591/reports.shtml.

[6] "Sudan: Arming the Perpetrators of Grave Abuses in Darfur," Amnesty International, November 16, 2004, at http://www.amnesty.org/en/library/asset/AFR54/139/2004/en/41a51ade-d567-11dd-bb24-1fb85fe8fa05/afr541392004en.pdf.

[7] Mike Lewis, "Skirting the Law: Sudan's Post-CPA Arms Flows," Small Arms Survey HSBA Working Paper 18, September 2009, Geneva.

[8] "Dongfeng Motor Group Company Limited Annual Report 2010," p.[8], Dongfeng Motor Group Company Limited, 2010, at http://www.dfmg.com.cn/en/gonggao/index.jsp.

[9] The United Nations Panel of Experts was established by the UN Security Council through Resolution 1591. For details on its mandate, See "UN Security Council: Resolutions," United Nations Security Council, 2005, at http://www.un.org/Docs/sc/unsc_resolutions05.htm.

[10] Though the Panel named "Dongfeng Automobile Import and Export Limited," CRN is confident this refers to DFL. According to DFL's company materials, it engages in import and export of vehicles and equipment. See "Dongfeng Motor Group Company Limited Annual Report 2010," p. 8, at http://www.dfmg.com.cn/en/gonggao/index.jsp. In addition, as discussed later in this profile, CRN confirmed DFL's involvement in selling the trucks to Sudan with a U.S. based company (Cummins) that had entered a joint venture with DFAC.

[11] This belief is based on CRN research and communication with Cummins Inc. (Cummins), an American company involved in a joint venture with Dongfeng Automobile Co. Ltd. (DFAC)—a DFL affiliate.

[12] "Report of the Panel of Experts established pursuant to resolution 1591 (2005) concerning the Sudan," p.[37], January 30, 2006, United Nations Security Council website, at http://www.un.org/sc/committees/1591/reports.shtml.

[13] Hilary Andersson, "China 'is fuelling war in Darfur'," BBC News, July 13, 2008, at http://news.bbc.co.uk/2/hi/africa/7503428.stm.

[14] Id. The arms embargo was first put in place in 2004, and expanded in 2005 to include the Government of Sudan. See "Resolution 1591 (2005)" p.[5] para. 7, United Nations Security Council, at http://www.un.org/sc/committees/1591/resolutions.shtml.

[15] Phone conversation between Cummins and CRN, April 2010.

[16] As of August 2010, DCEC is still listed on Dongfeng Motor Company Limited's website as a division of DFAC. See "Organization," Dongfeng Motor Company Limited's website, at http://www.dfl.com.cn/dfl/info/organization_en.aspx.

[17] Phone conversation between Cummins and CRN, July 2007.

[18] Id. and Phone conversation between Cummins and CRN, April 2010. Critically, Cummins provided the stock ticker for the company that is believed to have sold the trucks to the Sudanese government. This stock ticker, which is DFL's, along with other research, convinces CRN that DFL is the relevant entity, not DFAC as previously reported.

[19] "China says BBC's accusation on arms sales to Sudan 'ungrounded,'" Embassy of the People's Republic of China in the United States of America website, July 18, 2008, at http://www.china-embassy.org/eng/gyzg/t476081.htm.

[20] Nissan to Sell Chinese Dongfeng Pick-Ups Overseas," Bloomberg, March 7, 2008, at http://www.bloomberg.com/apps/news?pid=20601089&sid=andiTY2oxHjs&refer=china.

[21] Not to be confused with Dongfeng Motor Group Co., or its parent Dongfeng Motor Corporation. Bloomberg LP (Bloomberg's latest data as of August 15, 2010).

[22] "Dongfeng Motor Group Company Limited Annual Report 2010," p.[8], at http://www.dfmg.com.cn/en/gonggao/index.jsp.

[23] "On Investment in Sudan," Ethix SRI Advisors, June 2007, at http://www.ethix.se/nyheter/include2.asp?id=122.

[24] Phone conversation between Cummins and CRN, April 2010.

[25] Mike Lewis, “Skirting the Law: Sudan’s Post-CPA Arms Flows,” Small Arms Survey HSBA Working Paper 18, September 2009, Geneva; “Report of the Panel of Experts established pursuant to resolution 1591 (2005) concerning the Sudan,” United Nations, October 29, 2009, at http://www.un.org/sc/committees/1591/reports.shtml.

[26] “Blood at the Crossroads: Making the case for a global Arms Trade Treaty”, Amnesty International, September 2008, at http://www.amnestyusa.org/document.php?id=ENGUSA20080917002; Hilary Andersson, “China ‘is fuelling war in Darfur’,” BBC News, July 13, 2008, at http://news.bbc.co.uk/2/hi/africa/7503428.stm.

[27] “Partnering to End the Crisis in Darfur: Calvert Advocacy Success: Cummins, Inc.,” Calvert Investments website, at http://www.calvert.com/sr-darfur-cummins.html.

[28] Phone conversation between Cummins and CRN, April 2010.

COMPANY

# EGYPT KUWAIT HOLDING COMPANY

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **EGYPT** | **OIL** | **PRIORITY ENGAGEMENT** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**TRI-OCEAN ENERGY** (majority owned subsidiary with Sudan-related operations)

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Egypt Kuwait Holding Company (EKH) is an Egyptian-based private equity firm, operating in Africa and the Middle East.[3] Through its majority-owned subsidiary,[4] Tri-Ocean Energy, EKH holds a stake in the Petrodar Operating Company (Petrodar) consortium.[5] This stake leads to potential association with numerous concerns, including insecurity and other negative environmental and social impacts of exploration and production activities.

EKH's holdings in producing oil blocks are considered "Oil-Related Activities" under the targeted Sudan divestment legislative model. EKH is therefore considered "Scrutinized" under the model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In January 2008, EKH's Tri-Ocean Energy subsidiary acquired a 5% stake in the Petrodar Operating Company (Petrodar), which has operated oil blocks 3 and 7 since 2000.[6] Petrodar's fields produce nearly 300,000 barrels of Dar Blend crude per day.[7]

EKH also has established a greenfield paints manufacturing complex, Africa Paints, in Sudan. The factory, which has an estimated annual capacity of 10,000 tons, was inaugurated in August 2010.[8]

## POTENTIAL CONCERNS AND RISKS

### General potential for increasing instability and violence following anticipated southern secession in January 2011

There is a history of direct connections between the oil industry and conflict in Sudan. This is particularly true in the context of civil war between Sudan's north and south. It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively. The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, the oil industry and its infrastructure have been identified as assets over which the north and south are likely to battle.

### Impacts of exploration activities on local populations

Oil activities in southern Sudan have been associated with human rights abuses against populations living in concession areas, and there is a risk such abuses may be repeated, especially in the context of renewed conflict in Sudan. During the civil war fought between Sudan's north and south from 1983 to 2005, security forces associated with certain oil consortia were linked with numerous human rights violations, including forced displacement and violence against communities in project areas.

Concession areas currently under Petrodar's control were the site of Sudanese government attacks on civilian populations during the civil war. These attacks are said to have been part of a strategy to clear areas for exploration. Beginning in 1994, villages in the Adar Yale and Khor Adar area were repeatedly attacked in a similar manner, first by aircraft and then by land-based forces. These attacks in Upper Nile displaced at least 12,000 people prior to Petrodar's entrance into the concession. Attacks on villages in the concession area continued until 2004, resulting in the destruction of most villages located near oil service roads.[9]

Oil exploration has affected local residents' ability to access unpolluted water sources for personal and agricultural use. Roads built to service oil installations have shifted the direction of water flows, causing localized droughts and flooding.[10]

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[11] Due to EKH's holdings in a currently producing oil concession, the company is directly tied to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in the Darfur region or in a potential conflict with Sudan's south.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement.[12]

Though EKH's concession is in the south, it relies on northern infrastructure for export; therefore associated revenue likely would be subject to any revenue sharing agreement struck between the Government of Sudan and an independent South Sudan. Transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[13]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As EKH's equity stake in the Petrodar consortium is defined as "Oil-Related Activities" under the targeted Sudan divestment legislative model, it is classified as "Scrutinized" under the model.

## ENGAGEMENT

In 2008, CRN sent an initial inquiry regarding EKH's Sudan-related operations to the Al-Kharafi group, which was EKH's parent at the time. This led to a May 2008 meeting between CRN and the Al-Kharafi Group. Most recently, CRN reached out to EKH in October 2010 to discuss issues of security, revenue transparency and the upcoming referendum on southern independence scheduled for January 2011 as part of a CRN priority engagement effort. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

In its 2009 Sustainability Report, EKH states that it ensures that all of its subsidiaries respect human rights according to national principles and international standards as set by the International Labour Organization and the Universal Declaration of Human Rights.[14]

### 2. Impact Assessments

No information is available on whether EKH has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

In its 2009 Sustainability Report, EKH states that the company and its subsidiaries have not violated the human rights principles, which have been implemented by the company.[15] This suggests that EKH operations engage in human rights monitoring. However, the company does not publish information to verify any monitoring on human rights.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

EKH is not a VPSHR participant.

### UN Global Compact

EKH is not a UNGC participant.

### EITI

EKH is not an EITI participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: EGYPT KUWAIT HOLDING COMPANY

[1] Jeffrey Gettleman, “War in Sudan? Not Where the Oil Wealth Flows,” New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

[2] “Sudan-Macroeconomic Policy,” African Economic Outlook, August 3, 2010, at http://www.africaneconomicoutlook.org/en/countries/east-africa/sudan/#macro_economic_policy; Paul J. Sullivan and Natalie Nasrallah, “Improving Natural Resource Management in Sudan,” p. 3, United States Institute of Peace, June 2010, at http://www.usip.org/resources/improving-natural-resource-management-in-sudan.

[3] “Vision, Mission, and Values,” Egypt Kuwait Holding Company website, 2010, at http://ekh.dream-makers.co/About-Us/Vision,-Mission-and-Values.aspx.

[4] “Sustainability Report 2009,” p. 11, Egypt Kuwait Holding Company, 2010, at http://ekh.dream-makers.co/getattachment/Investor-Relations/Sustainability-Reports/Annual-Reports/Full-Report-(3).pdf.aspx.

[5] “Exploration and Production,” Tri-Ocean Energy website, 2010, at http://www.trioceanenergy.com/.

[6] Id. and “Company Profile,” Petrodar Operating Company website, at http://www.petrodar.com/profile.html; “Egypt Kuwait Hldg Buys 5 pct of Sudan’s Petrodar,” Reuters, March 25, 2008, at http://in.reuters.com/article/asiaCompanyAndMarkets/idINL2525512920080325.

[7] “Tri-Ocean Energy had a strong second quarter (2010),” Egypt Kuwait Holding Company, June 30, 2010, at http://ekh.dream-makers.co/Our-Community/ViewArchive/Tri-Ocean-Energy-Had-A-strong-Second-quarter-%282010.aspx.

[8] Annual Report 2009,” p. 37, Egypt Kuwait Holding website, 2010, at http://www.ekholding.com/portal/investor_relations/annual_report.aspx.

[9] “Oil Development in Upper Nile Sudan,” p. 12-17, European Coalition on Oil in Sudan, at http://www.ecosonline.org/reports/2006/%5Eindex.html/ECOS%20Melut%20Report%20final%20-text%20only.pdf.html.

[10] Id. at 22 and “Soil, Oil, and Human Rights:” p. 384, Human Rights Watch, November 2003, at http://www.hrw.org/sites/default/files/reports/sudanprint.pdf.

[11] Jeffrey Gettleman, “War in Sudan? Not Where the Oil Wealth Flows,” New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

[12] “Sudan—Fuelling Mistrust,” p. 19, Global Witness, 2009, at http://www.globalwitness.org/library/fuelling-mistrust-need-transparency-sudans-oil-industry.

[13] “Fuelling Mistrust: The Need for Transparency in Sudan’s Oil Industry,” Global Witness, September 7, 2009, at http://www.globalwitness.org/sites/default/files/pdfs/fuelling_mistrust_press_release.pdf.

[14] “Sustainability Report 2009,” p. 45, Egypt Kuwait Holding Company, 2010, at http://ekh.dream-makers.co/getattachment/Investor-Relations/Sustainability-Reports/Annual-Reports/Full-Report-(3).pdf.aspx.

[15] Id.

COMPANY

# ELECTRICITY GENERATING PUBLIC COMPANY LIMITED

| COUNTRY | SECTOR | CRN CLASSIFICATION |
| --- | --- | --- |
| **THAILAND** | **POWER** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**EGCO ENGINEERING AND SERVICE COMPANY LTD.** (wholly owned subsidiary with Sudan-related operations)
**KHANOM ELECTRICITY GENERATING CO. LTD. AKA KEGCO** (majority owned subsidiary, bonds issued)

## CONTEXT OVERVIEW

### Industry

Power projects have the potential to provide a much-needed increase in the production of electricity in Sudan, where only 22% of the population had access to electricity as recently as five years ago.[1] Sudan's National Electricity Corporation (NEC), the government body responsible for the transmission and distribution of electricity in Sudan, states that it endeavors to connect the entire country to a stable electric network by 2030.[2] As of 2007, completed transmission lines primarily connect Khartoum and other major northern cities, leaving most of Sudan's marginalized populations excluded from the benefit of power production projects.[3]

Because the NEC—a subcomponent of Sudan's Ministry of Energy and Mining—is charged with supplying electrical power in Sudan, companies involved in power production projects most likely will be contracting directly with that government body or on government-commissioned projects.

Power projects are underway in dozens of locations, including some regions that have experienced instability in recent years, as well as those that may become increasingly insecure with the anticipated secession of southern Sudan in 2011.

While power production projects—with the exception of certain hydropower projects—are generally not associated with some of the serious impacts linked with the extractive sector, companies involved in them may face increasing challenges due to upcoming events in Sudan. It is widely predicted that southern Sudan will secede from the north following a referendum on independence that is scheduled for January 9, 2011. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could trigger conflict between Sudan's north and south.

### Company

The Electricity Generating Public Company Limited (EGCO) is a Thailand-based independent power producer. Its largest shareholder is the Electricity Generating Authority of Thailand (EGAT), which holds a 25.41% interest.[4] Its involvement in Sudan began in 2002 when it acquired several contracts with the government-controlled National Electricity Corporation of Sudan (NEC).[5]

The company's work constitutes "Power Production Activities" under the targeted Sudan divestment legislative model, and EGCO is therefore considered to have "Scrutinized Business Operations."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In 2002, EGCO's wholly owned subsidiary, EGCO Engineering and Service Company, Ltd. (ESCO), secured contracts with the NEC for operation and maintenance (O&M) services, supervision for major maintenance, and training for NEC personnel.[6]

On behalf of the NEC, the company has been in charge of maintenance of the Garri Power Station (also known as El Gaili, Jaily and Qarre),[7] located north of Khartoum since 2002.[8] It also received service income from selling spare parts to the Garri power plant in 2005.[9] It appears that ESCO's maintenance contract with the NEC may now have been fulfilled.

ESCO contracted to provide O&M services, inventory management, and training to other NEC power plants from February 2005 to March 2007.[10] In 2006, the NEC awarded the company a three month, 4.8 million baht (U.S. $126,709) contract to provide training on power development planning to Sudanese engineers.[11] EGAT reports reveal that ESCO's O&M contract was renewed in 2006, 12 and according to Thailand's Ministry of Foreign Affairs, the company was operating an electric power plant in Sudan at least through April 2007. This could be Garri Power Station referred to above. In May 2007, ESCO and EGAT signed a 21 million baht contract (U.S. $554,353) to provide additional training to the NEC.[13]

In 2004, EGAT signed a three to four year agreement with ESCO to supply spare parts and maintenance service under the same terms as ESCO's contracts with the NEC.[14] This agreement may be connected with the sale of parts to the Garri 2 power plant. According to last report, the project commenced in September 2004, so it is likely that this contract has been fulfilled.

EGCO has attempted on several occasions to expand its operations in Sudan. In 2004, the firm was reportedly set to forge a joint venture with Petroliam Nasional Berhad (Petronas), a state-owned Malaysian oil company, and it submitted a proposal for the construction of an independent power plant to Sudanese authorities.[15] In late 2006, EGCO, in partnership with EGAT and PTT PLC, a company majority-owned by the Thai government, submitted a proposal to construct a 300 megawatt (MW) power plant in Sudan.[16] As of August 2010, neither of these projects appears to have commenced.

It is unclear whether EGCO or its subsidiaries have any current projects or service agreements in place in Sudan. The company's 2009 annual report does not refer to Sudan-related operations.[17] However in July 2009, the Managing Director of EGCO presented certificates to officers of Sudan's NEC for the completion of a training session.[18]

## POTENTIAL CONCERNS AND RISKS

### Potential for general instability and conflict around January 2011 referendum

While power production projects—with the exception of certain hydropower projects—are generally not associated with displacement, security concerns, and other serious impacts linked with the extractive sector, companies involved in them may face increasing challenges due to upcoming events in Sudan. It is widely predicted that southern Sudan will secede from the north following a referendum on independence that is scheduled for January 9, 2011. The vote is called for under the Comprehensive Peace Agreement (CPA), signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement. The CPA brought an end to 22 years of civil war between Sudan's north and south that had led to the deaths of two million Sudanese. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

The potential for fall-out from the referendum process holds significant implications for the private sector in Sudan, including companies involved in power production projects. Areas affected by conflict differ significantly from stable operating environments. They exhibit instability, unpredictable conditions, and contexts in which rights violations are ongoing, presenting companies with greater challenges in ensuring they do not infringe on human rights. Not only is it more difficult for companies to do no harm in such settings, but the failure to adhere to standard corporate responsibility practices carries the potential for heightened impacts on communities and on companies themselves.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

EGCO is considered to have "Scrutinized Business Operations" under the targeted Sudan divestment legislative model due to its "Power Production Activities."

## ENGAGEMENT

A CRN inquiry in 2007 requesting dialogue and further information received a response from EGCO, which included information on its Sudan-related business. Additional information requests from CRN between 2008 and 2010 have not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

EGCO mentions human rights in its annual sustainability report, stressing that it strives to maintain a discrimination and harassment-free workplace environment.

However, EGCO does not have a stand-alone human rights policy and makes no mention of human rights in relation to the countries where it operates.

### 2. Impact Assessments

No information is available on whether EGCO has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

EGCO is not a UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: ELECTRICITY GENERATING PUBLIC COMPANY

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[2] "Our Vision," National Electricity Corporation, at http://www.necsudan.com/en/home.php.

[3] "Transmission Lines," Dams Implementation Unit, Merowe Dam Project website, at http://www.merowedam.gov.sd/en/transp-lines.html.

[4] "Ownership Structure," Electricity Generating Public Company website, March 10, 2009, at http://www.egco.com/en/ir_shareholder_ownership.asp.

[5] Letter from EGCO Group to CRN, September 26, 2007.

[6] Id.

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[10] Id. p. 71

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[17] See "Annual Report 2009," Electricity Generating Public Company, 2010, at http://www.egco.co.th/en/ir_quote.asp.

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COMPANY

# EXPRESS PETROLEUM AND GAS COMPANY (EXPRESS)

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **NIGERIA** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Express Petroleum and Gas Company (Express) is a private oil and gas company headquartered in Nigeria. The company holds 10% stakes in blocks 13 and 15. Because these concessions are located offshore in northeastern Sudan, Express' activities do not present some of the risks associated with onshore blocks—particularly those in Darfur and southern Sudan—in terms of direct impacts on local populations' human rights and instability surrounding southern Sudan's 2011 referendum on secession.

As the company is not publicly traded, Express does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Express has held a 10% ownership in the Red Sea Petroleum Operating Company (RSPOC) since 2005, when the RSPOC was granted exploration rights in Block 15, located in the Red Sea off the coast of Port Sudan.[3] Express' partners in this venture include CNPC (35%), Petroliam Nasional Berhad (Petronas) (35%), Sudan's Sudapet (10%), and the Sudan-based High Tech Petroleum Group Co. Ltd. (5%).[4]

The 25-year contract governing Block 15 provides for a six-year exploration period, which appears to still be underway and has so far resulted in the drilling of at least one dry well.[5]

In 2007, Express secured a 10% stake in the offshore Block 13, which is in northeastern Sudan near the border with Egypt and operated by the Coral Petroleum Operating Company (CPOC). Express' partners in the block are CNPC (40%), Sudapet (15%), Indonesia's state-owned PT Pertamina Persero (15%), Sudan-based Dindir Petroleum International (10%), and Nigerian company Africa Energy (10%). 6 The CPOC partners signed a joint operation contract in June 2007 and were expected to complete exploration work within three years.[7] Sudapet states that Block 13 operators had acquired 2D marine seismic data, reprocessed old data, and acquired gravity and magnetic surveys by the end of 2008. As of November 2010, Block 13 is reportedly still in the exploration stage and at least two exploration wells have been drilled.[8]

## POTENTIAL CONCERNS AND RISKS

### General potential for increasing instability and violence around anticipated southern secession in January 2011

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Because the Government of Sudan and the regional Government of South Sudan currently rely on oil for 63% and 98% of their respective revenues, and the regions have not yet stuck an agreement on sharing revenue in the case of southern secession, many fear that southern secession may trigger violence between the north and south. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

Because Express' oil concessions are offshore and in northern Sudan, it does not face or present some of the risks associated with onshore blocks—particularly those in Darfur and southern Sudan—in terms of direct impacts on local populations' human rights and instability surrounding southern Sudan's 2011 referendum on secession.

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[9] If Express' concessions enter a production phase, the company might be tied directly to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in the Darfur region or in a potential conflict with Sudan's south.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement.[10] Because Express' concessions are in Sudan's north, any revenue it produces would likely not be subject to a revenue sharing agreement with the south. Nevertheless, transparency in revenue reporting—by companies and the government—has been identified as key to actualizing an agreement, in addition to being critical for reducing corruption, poverty, and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[11]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As of November 2010, Express is not implicated under the targeted Sudan divestment legislative model because it is not publicly traded.

## ENGAGEMENT

Beginning in 2008, CRN has sent regular inquiries requesting dialogue and further information regarding Express' Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Express has not published a human rights policy or referenced human rights in its public materials.

### 2. Impact Assessments

No information is available on whether Express has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Express is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

Express is not a UNGC participant.

### EITI

Express is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: EXPRESS PETROLEUM AND GAS COMPANY (EXPRESS)

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[4] "Oil Map of Sudan," European Coalition on Oil in Sudan, October 2007, at http://www.ecosonline.org/oilmap/.

[5] "Block 15—Offshore, Sudan," The Red Sea Petroleum Operating Company (RSPOC), posted on Fox Oil Company website, October 28, 2009, at http://www.foxoilcompany.com/pdf/Block%2015%20-Sudan-%20operated%20by%20Red%20Sea%20Petroleum%20Operating%20Company.pdf; "Sudapet," Africa Intelligence, June 2, 2010, at http://www.africaintelligence.com (subscription required; copy retained by CRN).

[6] "CNPC in Sudan," p. 6, China National Petroleum Corporation, 2010, at http://www.cnpc.com.cn/resource/english/images1/pdf/CNPC%20in%20Sudan%202009%20Report/CNPC%20in%20Sudan.pdf.

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[8] "Pertamina Set on Acquiring Producing Blocks in Sudan," Petroleum Africa, February 16, 2007, at http://www.petroleumafrica.com/en/newsarticle.php?NewsID=3210; "CNPC in Sudan," p. 6, China National Petroleum Corporation, 2010, at http://www.cnpc.com.cn/resource/english/images1/pdf/CNPC%20in%20Sudan%202009%20Report/CNPC%20in%20Sudan.pdf; "Operating Companies," Sudapet website, at http://www.sudapet.sd/operating_companies.php.

[9] Jeffrey Gettleman, "War in Sudan? Not Where the Oil Wealth Flows," New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1

[10] "Sudan—Fuelling Mistrust," p. 19, Global Witness, 2009, at http://www.globalwitness.org/library/fuelling-mistrust-need-transparency-sudans-oil-industry.

[11] "Fuelling Mistrust: The Need for Transparency in Sudan's Oil Industry," Global Witness, September 7, 2009, at http://www.globalwitness.org/library/fuelling-mistrust-need-transparency-sudans-oil-industry.

COMPANY

# GAZ GROUP

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **RUSSIA** | **MILITARY EQUIPMENT** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**GAZ-FINANS** (wholly owned subsidiary, bonds issued)
**AVTODIZEL OAO** (majority owned, publicly traded subsidiary)
**PAVLOVSKY BUS PLANT** (majority owned, publicly traded subsidiary)
**TVERSKOY EXCAVATOR OSJC** (majority owned, publicly traded subsidiary)
**YAROCLAVSKY DIESEL EQUIPMENT PLANT OAO** (majority owned, publicly traded subsidiary)

## CONTEXT OVERVIEW

### Industry

Sudan has been host to numerous conflicts featuring large levels of violence targeted against civilians. Since 2003, the Sudanese military and proxy militias have conducted a campaign in Darfur—characterized by the U.S. government as genocide—that has resulted in the deaths of at least 200,000 people. Twenty-two years of civil war between Sudan's north and south concluded in 2005 when the Government of Sudan and the Sudan People's Liberation Movement signed the Comprehensive Peace Agreement (CPA). That war led to the deaths of two million Sudanese.

It is widely predicted that southern Sudan will secede from the north following a January 2011 referendum on independence. Human rights advocates, political leaders and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

It is difficult for companies with arms-related business to do no harm in this context. In the event conflict erupts around the 2011 referendum, their products will play a central role in facilitating violence, increasing the potential for heightened impacts on civilians. Already, heightened tensions have led to troop buildup along north-south border regions and to increased weapons proliferation amongst civilians.[1]

While a United Nations embargo[2] prohibits the provision of military equipment to parties in Darfur, and U.S.[3] and European Union sanctions[4] restrict the trade of arms more generally, materials have repeatedly found their way to restricted areas.[5] Foreign actors have been important partners—military aircraft from Russia and China have been used in attacks in Darfur. China, Iran, Russia, Ukraine and Belarus are reported to be Sudan's main suppliers of small arms.[6]

Recent studies indicate that the transfer of arms to all parts of Sudan continues apace and is in some cases increasing, with patterns, actors and methods of distribution similar to those seen during the last civil war between the north and the south.[7]

### Company

GAZ Group, which trades as GAZ Auto Plant, is a Russia-based automotive manufacturer of light commercial vehicles, trucks, and diesel engines.[8] The company has been involved in Sudan since 2008, when the Sudanese government bought 50 of its 6WD

Ural-4320 trucks. These trucks have been used by other customers for military purposes and oil exploration, among other things. GAZ Group has listed the Sudanese military as a main export customer, leading to concern that its products will facilitate military activities or be used in violation of the UN arms embargo on Darfur. GAZ Group's military-grade transport vehicles meet the definition of "Military Equipment" under the targeted Sudan divestment legislative model; however more information is required to determine whether it should be classified as "Scrutinized" Under the targeted model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

GAZ Group manufactures Ural Trucks, which are frequently used as tankers, re-fuelers, and specialized trucks by oil and gas companies and the mining industry.[9] Ural model trucks have also been used by armed forces around the world,[10] including as the base for the BM-21 Multiple Launch Rocket System.[11]

In August 2008, it was reported that the Sudanese government had purchased 50 Ural Trucks from GAZ Group. It is believed the government purchased the 6WD Ural-4320 model, which GAZ "finalized and adjusted to [the] African climate."[12] The Ural-4320 model has been used to mount drilling rigs for water, oil and gas exploration, as well as for military purposes.[13] Industry estimates put the cost of this type of truck at around RUR 1.5 million, which puts the total cost of 50 such trucks at RUR 75 million (U.S. $3 million).[14]

GAZ Group stated in January 2009 that it would ship 50 vehicle sets (likely a reference to Sudan's August 2008 purchase) to Sudan within the year.[15] It also announced plans to assemble 2,000 Ural trucks in Sudan in 2010. These trucks will reportedly be 6WD Ural-4320 models.[16]

CRN has not been able to confirm the intended use of the trucks that will be shipped to, or assembled in, Sudan. However, GAZ Group's 2008 annual report lists Sudan's military as one of the company's main export customers, suggesting that the trucks may have been shipped for use by the Sudan Armed Forces.[17]

## POTENTIAL CONCERNS AND RISKS

### Use of company product for military purposes

There is concern that GAZ Group's trucks will facilitate military activities in Sudan. Not only does the company list the Sudanese military as a major client, but the model it has sold to the Sudanese government is suited for pairing with rocket launching systems and has been used by other clients, such as the Russian army, for military purposes.

Though the existing United Nations arms embargo prohibits the sale of military materials if for use in Darfur, it allows other sales to the Sudanese government, and there is a risk that GAZ Group's products will ultimately assist military actions in Darfur or other areas of Sudan. The Sudanese government has regularly moved weapons and military equipment into Darfur despite the UN embargo, and a UN panel of experts concluded in October 2009 that numerous other armed actors in Darfur continued to violate the embargo as well.[18]

There is also evidence that commercial trucks exported to Sudan have been retrofitted for offensive use in Darfur. Eyewitnesses alleged that during a December 2007 attack by government soldiers in West Darfur, vehicles fitted with Chinese-made anti-aircraft guns were used to fire at civilian dwellings, killing a number of women.[19]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Companies that supply "Military Equipment" within Sudan are considered to have "Scrutinized Business Operations" under the targeted Sudan divestment legislative model. “Military Equipment” includes military-grade vehicles and other equipment that readily may be used for military purposes; however more information on GAZ Group’s sales to the Sudanese government is required to determine whether it should be classified as “Scrutinized” under the model.

## ENGAGEMENT

CRN sent inquiries in 2009 requesting dialogue and further information regarding GAZ Group’s Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

GAZ Group has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether GAZ Group has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

GAZ Group is not UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: GAZ GROUP

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[2] Mike Lewis, Skirting the Law: Sudan's Post-CPA Arms Flows, Small Arms Survey HSBA Working Paper 18, September 2009, Geneva.

[3] Sudan: Overview of Sanctions," U.S. Department of the Treasury, Office of Foreign Assets Control, July 25, 2008, at http://www.treas.gov/offices/enforcement/ofac/programs/sudan/sudan.pdf.

[4] Mike Lewis, Skirting the Law: Sudan's Post-CPA Arms Flows, Small Arms Survey HSBA Working Paper 18, September 2009, Geneva.

[5] "Report of the Panel of Experts established pursuant to resolution 1591 (2005) concerning the Sudan," United Nations, October 29, 2009, at http://www.un.org/sc/committees/1591/reports.shtml.

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[19] "Blood at the Crossroads: Making the case for a global Arms Trade Treaty", Amnesty International, September 2008, at http://www.amnestyusa.org/document.php?id=ENGUSA20080917002; Hilary Andersson, "China 'is fuelling war in Darfur'," BBC News, July 13, 2008, at http://news.bbc.co.uk/2/hi/africa/7503428.stm.

COMPANY

# GIAD INDUSTRIAL CITY

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **SUDAN** | **MILITARY EQUIPMENT** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan has been host to numerous conflicts featuring large levels of violence targeted against civilians. Since 2003, the Sudanese military and proxy militias have conducted a campaign in Darfur—characterized by the U.S. government as genocide—that has resulted in the deaths of at least 200,000 people. Twenty-two years of civil war between Sudan's north and south concluded in 2005 when the Government of Sudan and the Sudan People's Liberation Movement signed the Comprehensive Peace Agreement (CPA). That war had led to the deaths of two million Sudanese.

It is widely predicted that southern Sudan will secede from the north following a January 2011 referendum on independence. Human rights advocates, political leaders and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

It is difficult for companies with arms-related business to do no harm in this context. In the event conflict erupts around the 2011 referendum, their products will play a central role in facilitating violence, increasing the potential for heightened impacts on civilians. Already, heightened tensions have led to troop buildup along north-south border regions and to increased weapons proliferation amongst civilians.[1]

While a United Nations embargo[2] prohibits the provision of military equipment to parties in Darfur, and U.S.[3] and European Union sanctions[4] restrict the trade of arms more generally, materials have repeatedly found their way to restricted areas.[5] Foreign actors have been important partners. Military aircraft from Russia and China have been used in attacks in Darfur, and China, Iran, Russia, Ukraine and Belarus are reported to be Sudan's main suppliers of small arms.[6]

Recent studies indicate that the transfer of arms to all parts of Sudan continues apace and is in some cases increasing, with patterns, actors and methods of distribution similar to those seen during the last civil war between the north and the south.[7]

### Company

GIAD Industrial City (GIAD) is Sudan's largest industrial complex, comprising thirteen separate industrial manufacturing companies that produce a variety of products from construction materials to automobiles.[8] GIAD Automotive Industrial Company (GIAD Automotive), one of GIAD's subsidiaries, is the largest and most profitable of its operations.[9] Though the company's website does not list military vehicles or equipment among its products,[10] it has been alleged that GIAD Automotive may have supplied military vehicles to the Sudan Armed Forces, some of which may have been used in Darfur.[11]

As the company is not publicly traded, GIAD does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

GIAD was first created in 1997 and was inaugurated officially in October 2000 through a partnership between two Sudanese state-owned enterprises, SMT Engineering Co. Ltd. (76%) and the Military Industry Corporation (24%).[12]

Its subsidiary, GIAD Automotive, held licenses to manufacture heavy-duty trucks for the German company MAN SE until 2007.[13] In 2005, a BBC investigation found evidence indicating that GIAD Automotive planned to assemble a supply of military vehicles from kits provided by Indian auto manufacturer Ashok Leyland to the Sudanese Ministry of Defense. At the time, Ashok Leyland's Board of Directors featured several British citizens, and a British parliamentary investigation was launched to determine whether the transaction would constitute a breach of a European Union arms embargo against Sudan.[14] Ashok Leyland claimed the vehicles were intended for humanitarian use,[15] and it appears that the truck components were never delivered to Sudan.

GIAD companies cover a wide array of industries, including weapons manufacturing. The 2005 BBC investigation first raised the possibility of GIAD Automotive's direct involvement in the manufacturing or assembly of military or military-grade vehicles.[16] In January 2008, the U.S. State Department said that the GIAD was producing "Bashir" tanks, Sudan's first domestically made military tank, which Darfur rebels allege have made their way to Darfur.[17] In addition, a Human Rights First report from that year claims that Chinese companies were involved in assisting the Sudanese government with weapons production, as well as providing engineers to oversee the production of military items at the GIAD complex.[18] The complex was also the location of Sudan's first domestically produced military aircraft, the Alsafat-01. In June 2010, the Alsafat-01 was assembled using locally-manufactured spare parts. Production will be limited to ten similar craft before the complex shifts to produce civilian aircraft.[19]

## POTENTIAL CONCERNS AND RISKS

### Use of company product for military purposes

Though the existing United Nations arms embargo prohibits the sale of military materials if for use in Darfur, it allows other sales to the Sudanese government. A UN Panel of Experts (tasked with monitoring the UN arms embargo on Darfur) concluded in October 2009 that the government and numerous other armed actors in Darfur have continued to violate the embargo.[20]

GIAD Automotive's operations came to the attention of the Panel when a civilian model MAN SE truck (model L90/M2000), part of a delivery by MAN SE to GIAD Automotive in April 2007, was found modified to carry a quad-barreled anti-aircraft gun and deployed to the region by the Sudanese military.[21] Eyewitnesses alleged that during a December 2007 attack by government soldiers in West Darfur, similar vehicles fitted with Chinese-made anti-aircraft guns were used to fire at civilian dwellings, killing a number of women.[22]

In communications with the UN Panel of Experts, MAN SE confirmed the identity of the modified truck and stated that the modifications on the vehicle were neither authorized by nor communicated to MAN SE.[23] MAN SE clarified with CRN that while GIAD Automotive has assembled past shipments of MAN SE products, it held no license for the manufacture of MAN SE vehicles. Representatives of MAN SE also stated that the company has only shipped non-military, commercial vehicles to Sudan.[24] Reportedly GIAD Automotive has not received any automobile products from MAN SE since April 2007, in accordance with a policy adopted by the MAN SE's board of directors.[25] In communications with CRN, MAN SE stated that GIAD Automotive has no outstanding deliveries or pending orders for shipments of MAN SE vehicles.[26]

In addition to the trucks originally sourced from MAN SE, the Panel alleged that the Sudanese military in Darfur has used trucks assembled by GIAD Automotive, which may have originally been manufactured by Renault. In response, Renault Trucks has stated that its "contracts comply with the rules preventing embargo violation" and stated that it has "no formal contracts with GIAD."[27]

Other companies listed by GIAD Automotive have denied such affiliations. This includes Nissan Motors, which stated "that it is not engaged in any business with, and has never executed any contracts with GIAD Automotive Industry Company nor with its affiliates in the Sudan." Korea's Hyundai Motors did not reply to the Panel's inquiry,[28] but its Sudanese distributor Elbarbary Engineering Co. Ltd had signed a cooperation agreement with GIAD Motors Co in 2008.[29]

As of November 2010, it does not appear that GIAD Automotive itself has responded to the Panel's findings. However, General Mohammed Ahmed Mustafa Aldhabi, the Panel's Sudanese point of contact, stated that GIAD Automotive was producing civilian vehicles that were unrelated to embargo violations.[30]

In May 2007, GIAD and its GIAD Automotive and GIAD Motor Company subsidiaries were placed on the United States' Specially Designated Nationals (SDN) list.[31] All three companies were designated as SDN due to their status as Sudanese state-owned enterprises. GIAD was specifically cited by the U.S. Treasury Department as having supplied armored vehicles to the Sudanese government for military operations in Darfur.[32] The most recent SDN list, updated November 4, 2010, still lists these companies.[33]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

GIAD has no public equity or corporate bond listings, so it does not fall under the targeted Sudan divestment model. It is possible this will change, as GIAD has in the past stated plans for a GIAD Automotive IPO.

In October 2007, GIAD announced intentions to list shares of GIAD Automotive on the Dubai Financial Market (DFM) and the Khartoum Stock Exchange.[34] These plans were withdrawn in August 2008 due to difficulties relating to U.S. sanctions. Following this, the company reportedly planned to list on the Khartoum Stock Exchange, where a cooperation agreement between the DFM and the Khartoum Exchange would allow it access to international investors.[35] As of November 2010, GIAD Automotive is not listed on the DFM.[36]

Any potential exchange listing of GIAD Automotive faces challenges besides those presented by investment prohibitions due to U.S. financial sanctions. International investors in GIAD Automotive could be subject to specific reporting requirements and closer scrutiny by the U.S. government. In the event that European banks with business in the United States participate in the GIAD Automotive IPO, they would have to ensure that no U.S. individuals or entities were involved in the listing and that the funds used for the transaction did not flow through the U.S. banking system. The U.S. Securities and Exchange Commission might also require that any company listed on any U.S. stock exchange declare its holdings in GIAD Automotive in order to allow investors to make informed decisions about their investments.[37]

In light of these challenges, at least two Middle Eastern brokerages have reportedly refused to handle GIAD Automotive's proposed Dubai listing based on concerns related to U.S. sanctions compliance. Analysts also have noted the potential reputational risks facing entities that participate in a GIAD Automotive IPO due to the company's connections to the Darfur conflict.[38]

## ENGAGEMENT

CRN sent an inquiry in October 2008 requesting dialogue and information regarding the company's operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

GIAD has not published a human rights policy or referenced key human rights norms in its materials.

### 2. Impact Assessments

No information is available on whether GIAD has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

GIAD Group is not UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: GIAD INDUSTRIAL CITY

[1] "North, south Sudan trade accusations of troop build-up," Reuters, September 27, 2010, at http://www.alertnet.org/thenews/newsdesk/HEA749890.htm; "Report: Arms Race in Sudan, Two Millions Weapons Among Civilians," Enough Project website, December 18, 2009, at http://www.enoughproject.org/blogs/report-arms-race-sudan-2-million-weapons-among-civilians.

[2] Mike Lewis, Skirting the Law: Sudan's Post-CPA Arms Flows, Small Arms Survey HSBA Working Paper 18, September 2009, Geneva.

[3] Sudan: Overview of Sanctions," U.S. Department of the Treasury, Office of Foreign Assets Control, July 25, 2008, at http://www.treas.gov/offices/enforcement/ofac/programs/sudan/sudan.pdf.

[4] Mike Lewis, Skirting the Law: Sudan's Post-CPA Arms Flows, Small Arms Survey HSBA Working Paper 18, September 2009, Geneva.

[5] "Report of the Panel of Experts established pursuant to resolution 1591 (2005) concerning the Sudan," United Nations, October 29, 2009, at http://www.un.org/sc/committees/1591/reports.shtml.

[6] "Sudan: Arming the Perpetrators of Grave Abuses in Darfur," Amnesty International, November 16, 2004, at http://www.amnesty.org/en/library/asset/AFR54/139/2004/en/41a51ade-d567-11dd-bb24-1fb85fe8fa05/afr541392004en.pdf.

[7] Mike Lewis, "Skirting the Law: Sudan's Post-CPA Arms Flows," Small Arms Survey HSBA Working Paper 18, September 2009, Geneva.

[8] "Sudan Giad Plans listing to fund growth," Zawya Dow Jones, posted on Sudan Tribune, October 19, 2007, at http://www.sudantribune.com/spip.php?article24300.

[9] "Sudan Giad Plans listing to fund growth," Zawya Dow Jones, posted on Sudan Tribune, October 19, 2007, at http://www.sudantribune.com/spip.php?article24300.

[10] GIAD Automotive has seven subsidiary groups: GIAD Vehicles Co., Ltd, GIAD Trucks Co. Ltd., GIAD Tractors and Agricultural Equipment Co. Ltd., GIAD Furniture and Medical Appliances Co. Ltd., GIAD Services Co. Ltd., GIAD Compressors Co. Ltd., and GIAD Paints Co. Ltd. Although some of the services or products provided by these companies could potentially be used for military purposes or to contribute to the manufacturing of military equipment, there is no indication of this on the companies' web pages. See "Subsidiary Companies," GIAD Automotive website, at http://www.giadauto.com/english/giad_companies_e.htm.

[11] "Dubai Financial Market declines to list Sudan car firm over US sanctions," Dow Jones, posted on Sudan Tribune, August 8, 2008, at http://www.sudantribune.com/spip.php?page=imprimable&id_article=28198.

[12] "GIAD Automotive Industry Company: A Legacy of Perpetual Civilization," p.[6], GIAD Auto website, 2006, at http://giadauto.com/zipfiles/giadauto_e_profile.zip.

[13] Id.

[14] "Memorandum from Mark Thomas: Submission of Evidence on Ashok Leyland Ltd and Sudan," UK Parliament Publications & Records, August 3, 2006, at http://www.publications.parliament.uk/pa/cm200506/cmselect/cmquad/873/873we12.htm.

[15] "Deal with Sudanese Co only for non-combat vehicles: Ashok Leyland," The Hindu Business Line, July 5, 2005, at http://www.blonnet.com/2005/07/05/stories/2005070502970300.htm.

[16] Despite Ashok Leyland's statements that the vehicles in question were intended for humanitarian use, the company's website indicates that the Stallion 4x4 trucks, one of the models to be delivered, have military applications. Ashok Leyland also specified that the trucks were to be delivered to the Sudanese Defense Ministry. Regardless of the circumstances of this particular deal, the fact that GIAD Automotive assembles vehicles for the Sudanese Defense Ministry is potentially significant. See, "Ashok Leyland to export defence vehicles to Sudan," Ashok Leyland website, February 16, 2005, at http://web.archive.org/web/20050308130953/www.ashokleyland.com/Web/whatsnew.jsp.

[17] "Dubai Financial Market declines to list Sudan car firm over US Sanctions," Dow Jones, posted on Sudan Tribune, August 8, 2008, at http://www.sudantribune.com/spip.php?page=imprimable&id_article=28198.

[18] "Investing in Tragedy: China's Money, Arms, and Politics in Sudan," Human Rights First, March 2008, at http://www.humanrightsfirst.info/pdf/080311-cah-investing-in-tragedy-report.pdf.

[19] "First Made-in-Sudan Military Aircraft Launched," Afrique en Ligne website, June 23 2010, at http://www.afriquejet.com/news/africa-news/first-made-in-sudan-military-aircraft-launched-2010062351601.html.

[20] Mike Lewis, "Skirting the Law: Sudan's Post-CPA Arms Flows," Small Arms Survey HSBA Working Paper 18, September 2009, Geneva; "Report of the Panel of Experts established pursuant to resolution 1591 (2005) concerning the Sudan," United Nations, October 29, 2009, at http://www.un.org/sc/committees/1591/reports.shtml.

[21] "Report to the Panel of Experts established pursuant to resolution 1591 (2005) concerning the Sudan," p.[44], United Nations Security Council, S/2009/562, October 29, 2009, at http://www.un.org/sc/committees/1591/reports.shtml.

[22] "Blood at the Crossroads: Making the case for a global Arms Trade Treaty", Amnesty International, September 2008, at http://www.amnestyusa.org/document.php?id=ENGUSA20080917002; Hilary Andersson, "China 'is fuelling war in Darfur'," BBC News, July 13, 2008, at http://news.bbc.co.uk/2/hi/africa/7503428.stm.

[23] "Report to the Panel of Experts established pursuant to resolution 1591 (2005) concerning the Sudan," p.[44], United Nations Security Council, S/2009/562, October 29, 2009, at
http://www.un.org/sc/committees/1591/reports.shtml.

[24] Information from initial CRN conversation (October 28) with MAN SE; pending official confirmation from MAN SE representatives.

[25] "Report to the Panel of Experts established pursuant to resolution 1591 (2005) concerning the Sudan," p.[44], United Nations Security Council, S/2009/562, October 29, 2009, at http://www.un.org/sc/committees/1591/reports.shtml.

[26] Information from initial CRN conversation (October 28) with MAN SE; pending official confirmation from MAN SE representatives.

[27] "Report to the Panel of Experts established pursuant to resolution 1591 (2005) concerning the Sudan," p.[44], United Nations Security Council, S/2009/562, October 29, 2009, at http://www.un.org/sc/committees/1591/reports.shtml.

[28] Id.

[29] "Cooperation between Elbarbary Engineering Co and Giad Motors," Hyundai website, June 6, 2008, at http://sudan.hyundai-motor.com/components/menu/MainPage/DNews_detail.aspx?Menu_no=1002&MenuName=Distributor%20News&no=871.

[30] "Report to the Panel of Experts established pursuant to resolution 1591 (2005) concerning the Sudan," p.[44], United Nations Security Council, S/2009/562, October 29, 2009, at http://www.un.org/sc/committees/1591/reports.shtml.

[31] "Changes to list of Specially Designated Nationals and Blocked Persons Since January 1, 2007," Office of Foreign Assets Control, United States Department of the Treasury website, at http://www.ustreas.gov/offices/enforcement/ofac/sdn/sdnew07.pdf.

[32] "FACTBOX-U.S: sanctions Sudanese individuals and companies," Reuters Alertnet, May 29, 2007, at http://www.alertnet.org/thenews/newsdesk/N29312368.htm.

[33] "Specially Designated Nationals and Blocked Persons," Office of Foreign Assets Control, November 4, 2010, at http://www.ustreas.gov/offices/enforcement/ofac/sdn/t11sdn.pdf.

[34] "Sudan Giad Plans listing to fund growth," Zawya Dow Jones, posted on Sudan Tribune, October 19, 2007, at http://www.sudantribune.com/spip.php?article24300.

[35] "Sudan firm withdraws Dubai IPO as US curbs hamper fundraising," Business Intelligence Middle East, posted on Sudanese Online's website, August 11, 2008, at http://www.sudaneseonline.com/en2/publish/Latest_News_1/Sudan_firm_withdraws_Dubai_IPO_as_US_curbs_hamper_fundraising.shtml.

[36] Bloomberg LP, August 24, 2010.

[37] "Dubai Financial Market declines to list Sudan car firm over US sanctions," Dow Jones, posted on Sudan Tribune, August 8, 2008, at http://www.sudantribune.com/spip.php?page=imprimable&id_article=28198.

[38] Id.

COMPANY

# GLENCORE INTERNATIONAL AG

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **SWITZERLAND** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**GLENCORE FDG LLC** (wholly owned subsidiary, bonds issued)
**GLENCORE FINANCE** (wholly owned subsidiary, bonds issued)
**GLENCORE FINANCE EUROPE** (wholly owned subsidiary, bonds issued)
**MINARA RESOURCES LIMITED** (majority owned, publicly traded subsidiary)
**CHEMOIL ENERGY LIMITED** (majority owned, publicly traded subsidiary)

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Glencore International AG (Glencore), a privately held company headquartered in Switzerland, is one of the world's largest suppliers of industrial commodities and raw materials.[3] The company is also one of the world's largest non-integrated oil suppliers, handling 3% of the world's daily oil needs.[4]

Glencore's Sudan-related operations appear to have begun in September 2003, and are concentrated on the purchase of crude oil and associated oil products.[5] Though Glencore does not appear to have a physical presence within Sudan, its transport of crude oil may assist the Sudanese government in generating revenue from its oil industry. Glencore's purchase of Sudanese crude oil constitutes "Oil-Related Activities" under the targeted Sudan divestment legislative model, and classifies it as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Glencore's Sudan-related activities began in September 2003 when Glencore and several other traders bid on multiple 25,000-30,000 ton (180,000 to 219,000 barrel) cargos of Sudanese gasoline offered by Sudapet.[6] It is unclear if Glencore was successful in its 2003 bids, but it purchased 600,000 barrels of Nile Blend crude oil and an additional 1-1.6 million barrels of Nile Blend in May and August 2008, respectively.[7] Glencore continues to purchase Nile Blend crude, acquiring 600,000 barrels in January 2010.[8]

## POTENTIAL CONCERNS AND RISKS

### Revenue stream and transparency

Because Glencore does not have a presence on the ground in Sudan, it is not, like some companies, associated directly with some of the industry's immediate risks and impacts such as displacement, kidnapping of workers, attacks on facilities, and environmental degradation. It is, however, associated with a revenue stream to the Sudanese government. Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[9] Glencore's purchases of Sudanese crude oil ties it to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), a 2005 accord that concluded 22 years of civil war between Sudan's north and south.[10] Transparency in revenue reporting—by companies and the government—has been identified as key to actualizing an agreement, in addition to being critical for reducing corruption, poverty, and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[11]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Glencore's purchases of Nile Blend crude are considered "Oil-Related Activities" under the targeted Sudan divestment legislative model, and the company is therefore classified as "Scrutinized." As Glencore does not have publicly traded equity, the targeted model's divestment provisions apply only to its majority or wholly owned subsidiaries that have issued bonds or are traded publicly. It is possible that Glencore itself will become publicly traded. In December 2009, it issued U.S. $2.2 billion in bonds in what was seen as a potential first step towards an initial public offering.[12] By May 2010, Glencore had tentative plans to raise €5 billion through a flotation on the London stock exchange in 2011.[13]

## ENGAGEMENT

CRN sent an initial inquiry to Glencore in February 2010 requesting dialogue and further information on the company's Sudan-related operations. Glencore replied that it is under no obligation to disclose its business dealings and that it is in full compliance with all laws and regulations, including applicable sanctions.[14]

CRN submitted a follow-up inquiry on behalf of a CRN member in August 2010, and received a reply similar to the one received February 2010.[15]

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Glencore has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether Glencore has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

Glencore is not UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: GLENCORE INTERNATIONAL AG

[1] Jeffrey Gettleman, “War in Sudan? Not Where the Oil Wealth Flows,” New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

[2] “Sudan-Macroeconomic Policy,” African Economic Outlook, August 3, 2010, at http://www.africaneconomicoutlook.org/en/countries/east-africa/sudan/#macro_economic_policy; Paul J. Sullivan and Natalie Nasrallah, “Improving Natural Resource Management in Sudan,” p. 3, United States Institute of Peace, June 2010, at http://www.usip.org/resources/improving-natural-resource-management-in-sudan.

[3] “Company Overview,” Glencore International AG website, 2009, at http://www.glencore.com/pages/company_overview.htm.

[4] “Crude Oil · Oil Products,” Glencore International AG website, 2009, at http://www.glencore.com/pages/oil.htm.

[5] Id.

[6] “Chinaoil to Sell First Sudan Gasoline in October,” Sudan Tribune, September 30, 2003, at http://www.sudantribune.com/spip.php?article419.

[7] Christian Schmollinger and Nesa Subrahmaniyan, “Sudan Sells Nile Blend Crude Oil for July to Glencore, Vitol,” Bloomberg LP, May 22, 2008 (copy retained by CRN); “Sudan Reoffers 600,000 barrels Dar Blend,” Sudan Tribune August 13, 2008, at http://sudantribune.com/spip.php?article28263.

[8] “Sudan Offers 2.[6] mln barrels of March Nile Blend,” Sudan Tribune, January 23, 2010, at http://www.sudantribune.com/spip.php?article33872.

[9] Jeffrey Gettleman, “War in Sudan? Not Where the Oil Wealth Flows,” New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1

[10] “Sudan—Fuelling Mistrust,” p. 19, Global Witness, 2009, at http://www.globalwitness.org/library/fuelling-mistrust-need-transparency-sudans-oil-industry.

[11] “Fuelling Mistrust: The Need for Transparency in Sudan’s Oil Industry,” Global Witness, September 7, 2009, at http://www.globalwitness.org/sites/default/files/pdfs/fuelling_mistrust_press_release.pdf.

[12] Eric Onstad, “Glencore sees volatile recovery, IPO to aid growth,” Reuters, March 10, 2010, at http://www.reuters.com/article/idUSLDE6290B820100310.

[13] Richard Wachman, “Glencore considers flotation on London stock market to raise £4bn,” The Observer, posted on the Guardian, May 16, 2010, at http://www.guardian.co.uk/business/2010/may/16/glencore-commodities-merger-xstrata#history-link-box.

[14] Email between Glencore International AG and CRN, February 22, 2010.[15] Email between Glencore International AG and CRN, August 20, 2010.

COMPANY

# HARBIN POWER EQUIPMENT COMPANY LIMITED

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **CHINA** | **POWER** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**HARBIN POWER ENGINEERING** (wholly owned subsidiary with Sudan-related operations)

## CONTEXT OVERVIEW

### Industry

Hydroelectric projects have the potential to provide a much-needed increase in power production in Sudan, where only 22% of the population had access to electricity as recently as five years ago. Hydroelectricity has been the focus of Sudan's efforts to expand power production in recent years, and the recently completed Merowe Dam has alone doubled Sudan's power capacity. Dam building or expansion projects are underway at the Roseires and Kajbar Dams, and feasibility studies are underway for a number of additional projects.

Given the nature of hydroelectric projects, they also have the potential to exacerbate an important driver of conflict in Sudan: access to land. Dam projects can cause direct displacement at project sites (often of poor or already marginalized groups),[1] alter river flows, and damage downstream ecosystems, wetlands and farmlands, all of which can heighten tensions surrounding access to and use of land.[2] Land is a scarce resource over which disputes erupt frequently. Numerous factors—including growth in human and livestock populations, unhealthy livestock, arboricultural and farming techniques, desertification, and population displacements—increase competition for land in Sudan. The increasing scarcity of land has aggravated tensions between pastoralists and agriculturalists, which are heightened by an influx of arms. Projects that affect this dynamic have the potential to fuel tensions and even trigger conflicts.

Some projects also run the risk of heightening ethnic tensions, an important factor in many conflicts in Sudan. The lack of transparency around dam projects and the government's heavy-handed approach towards resettlement has given rise to a perception by some affected communities that projects are related to efforts to "Arabize" the regions around the dams. In some cases, these perceptions have led to increased militarization among affected peoples.[3]

In addition to affecting these dynamics, hydropower projects have at times been associated directly with violence against local communities.[4] Upcoming developments in Sudan may present additional challenges for companies involved in hydropower projects. It is widely predicted that South Sudan will secede from the north following a referendum on independence that is scheduled for January 9, 2011. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

The potential for fall-out from the referendum process holds significant implications for the private sector in Sudan, as areas affected by conflict differ significantly from stable operating environments. They exhibit instability, unpredictable conditions, and contexts in which rights violations are ongoing, presenting companies with greater challenges in ensuring they do not infringe on human rights. Not only is it more difficult for companies to do no harm in such settings, but the failure to adhere to standard corporate responsibility practices carries the potential for heightened impacts on communities and on companies themselves.

### Company

Harbin Power Equipment Company Limited (HPEL) is a China-based corporation which manufactures a variety of power plant equipment, including hydro, nuclear, and thermal power machinery and auxiliary equipment.[5] HPEL is the largest manufacturer of power plant equipment in China. The company's subsidiary, Harbin Power Engineering (HPE), began working in Sudan in 2002 when it was commissioned to build a power plant, and it has expanded its work to include transmission lines for the Merowe dam project, which has been associated with human rights violations and negative environmental impacts. HPEL's involvement in hydropower projects in Sudan constitutes "Power Production Activities" under the targeted Sudan divestment legislative model; however more information is needed regarding the company's activities to determine if it should be classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

HPE won an Engineering, Procurement, and Construction (EPC) contract from Sudan's Ministry of Energy and Mining and the National Electricity Corporation (NEC) to build the first section of the Garri gas-fired power plant, which became operational in August 2004.[6] This 212 megawatt (MW) section cost U.S. $150 million, U.S. $130 million of which was financed by China's Export-Import Bank.[7] Each major oil pipeline in Sudan runs through Garri, which is located seventy miles north of Khartoum, suggesting that the plant may be strategically important to Sudan's oil sector. 8 HPE also was responsible for the first extension of the Garri plant, adding another 120 MW of production capacity to the plant in 2007.[9] Both HPE and the NEC have confirmed that these two sections are completed.[10]

In 2003, HPE contracted to build seven substations and 1745 kilometers (approximately 1084 miles) of transmission lines for the Merowe dam project in northern Sudan.[11] The dam, located on the fourth cataract of the Nile River, was financed by various Arab funds and overseen by Sudan's Dam Implementation Unit (DIU), an autonomous government entity headed by a presidentially appointed government official.[12] All ten turbines are now operational, adding the dam's full capacity to the national power grid.[13] Though the project doubles Sudan's power generating capacity,[14] the arrangement of its power transmission lines suggests that it predominantly provides power to Khartoum, the surrounding area, and Port Sudan.[15]

In December 2008, HPE contracted to construct 374 kilometers of 220KV transmission lines,[16] linking the towns of Dongola and Wadi Halfa to the wider national energy grid, and the Merowe Dam.[17] The contract was expected to last until spring 2010, and covered the design, engineering, erection, and EPC work for three substations as well as other associated duties.[18] Public announcements, information provided to CRN by an HPE spokesman, and statements on HPE's website suggest that the company's work on the Merowe transmission lines project is completed.[19] CRN is seeking to confirm that this completed project constituted the entirety of HPE's Merowe Dam-related work. In March 2010, the general manager of the NEC reported that the power project connecting the towns of Dongola and Wadi Halfa was ongoing.[20]

## POTENTIAL CONCERNS AND RISKS

### Merowe dam project's impacts are ongoing and could exacerbate or generate instability and conflict

HPE was not involved directly in the construction of the Merowe Dam, but it continues to facilitate and be associated with the project through its work on transmission lines. Though the Merowe dam project is completed, its impacts may play a lasting role in generating and exacerbating a risk of conflict in the region. Local communities—in particular the Manasir tribe—were opposed to the project from the beginning. Now displaced from their traditional waterline homelands and disconnected from their former livelihoods, they have largely rejected as inadequate the compensation and desert resettlement sites offered by the government.[21]

Protests over resettlement, compensation, and displacement have led to clashes in which civilians have been killed and arrested by security forces, and ongoing tensions remain a concern. The DIU, an autonomous government body overseeing the dam, is said to have its own army and security force and to operate outside regular government processes.[22] In 2003, DIU security forces fired on civilian protestors, wounding five. In April 2006, they fired upon local protestors, resulting in three deaths and at least fifty injuries, and in May 2009, protests over the dam led to clashes between resettled farmers and local police. The farmers reportedly lost their crops for a third time due to water shortages and protested by blocking a highway. Police countered with live ammunition, severely injuring at least one demonstrator.[23]

Affected communities reportedly are increasingly militant, with some younger Manasir joining the Sudan People's Liberation Army, hundreds of others heading to Eritrea for military training, and some joining an armed group in eastern Sudan. Also heightening the risk of future conflict is a sense among some communities that the Merowe project was part of a larger government effort to eradicate their culture and "Arabize" the region.[24]

The dam has displaced or otherwise affected at least 70,000 people.[25] Some of its other negative effects include potential for reduced river valley groundwater recharge, blockage of fish migrations, and damaged downstream agriculture. In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards projects and companies.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

A company involved in "Power Production Activities" is not considered "Scrutinized" if 75% of those activities include projects whose intent is to provide power or electricity to "Marginalized Populations" in Sudan. It is unclear whether Dongola and Wadi Halfa, the towns to be connected by HPE's power project, are considered "Marginalized Populations." Until further details are available on this and the extent to which HPE's activities are ongoing, the company is not classified as "Scrutinized," but will remain on CRN's watchlist.

## ENGAGEMENT

CRN has sent regular inquiries since 2007 requesting dialogue and further information regarding HPEL's Sudan-related operations. CRN received a reply in April 2009 from HPEL's subsidiary, HPE, concerning the company's operations in Sudan, and its efforts to make more contributions to the people of Sudan.

CRN requested further information from the company in July 2009, including information regarding the company's involvement in the Dongola-Wadi Halfa project and development projects. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Neither HPE, nor HPEL, have published a human rights policy or referenced key human rights norms in its materials.

### 2. Impact Assessments

No information is available on whether HPE has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

Neither HPE nor HPEL are UNCG participants.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: HARBIN POWER EQUIPMENT COMPANY LIMITED

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2 Paul J. Sullivan and Natalie Nasrallah, “Improving Natural Resource Management in Sudan,” p. 11, United States Institute of Peace, June 2010 at http://www.usip.org/files/resources/SR242SullivanNasrallah.pdf.

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COMPANY

# HI-TECH PETROLEUM GROUP CO. LTD.

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **SUDAN** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Hi-Tech Petroleum Group Co. Ltd. (HTPG) is a private Sudanese oil company controlled by President Omar al-Bashir's brother, Ali Hassan Ahmed al-Bashir.[3] The company is a subsidiary of the Hi-Tech Group, which has interests in energy, trade, mining, industrial and service industries.[4] HTPG currently holds stakes in several oil exploration blocks in Darfur and Sudan's sensitive north-south border area. Since it is not publicly traded, HTPG does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

HTPG's operations in Sudan's oil industry began in 2003, when it acquired a stake of at least 32.5% in the Advanced Petroleum Company (APCO). APCO operates the Block C oil concession and is a joint venture between Sudanese companies, including HTPG, Sudapet, Khartoum State, and Higleig Petroleum Service & Investment.[5]

APCO has conducted exploration activities in parts of Block C located in South Darfur State. These activities resulted in the drilling of five dry wells.[6] While APCO does not currently appear to be engaged in exploration activities, recent statements suggest that exploration in the block may resume in the future. In July 2010, a Block C partner expressed plans to review the block's exploration history in order to find hydrocarbons.[7] It is unclear what percentage HTPG currently holds in APCO; as the European Coalition on Oil in Sudan (ECOS) lists HTPG's share as 65%, while Sudapet lists it as 32.5%.

In 2003, HTPG acquired an 8% stake in the White Nile Petroleum Operating Company (WNPOC), which operates Block 8 in eastern Sudan.[8] The Block 8 concession area is currently under exploration. In June 2009, WNPOC announced that it had found dry, non-associated natural gas in two wells, a find that has the potential to produce between 16 and 20 trillion cubic feet of natural gas within three years.[9]

In 2005, HTPG acquired a 5% stake in the Red Sea Petroleum Operating Company (RSPOC). RSPOC operates Block 15 off the shore of Red Sea state.[10] A 25-year contract governing Block 15 provides for a six year exploration period, which appears to still be underway.[11] So far, exploration in Block 15 has resulted in the drilling of one well, which was found dry.[12]

In 2006, HTPG acquired a 7% stake in Block 12A, which extends from upper North Darfur to the Libyan border.[13] The block is operated by the Greater Sahara consortium, comprised of Al-Qahtani & Sons Group of Companies (Al-Qahtani & Sons; 33%), Yemen's Ansan Wikfs Investments Limited (Ansan Wikfs; 20%), Sudapet (20%), Dindir Petroleum International (Dindir Petroleum; 15%) and All Africa Investment Corp (5%).[14] The companies paid U.S. $43 million to acquire drilling rights in Block 12A.[15] According to satellite photos commissioned by the UK-based non-governmental organization Global Witness, Block 12A was under exploration in late 2009 and early 2010.[16]

## POTENTIAL CONCERNS AND RISKS

### General potential for increasing instability and violence

There is a history of direct connections between the oil industry and conflict in Sudan. This is particularly true in the context of civil war between Sudan's north and south. It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence, and the oil industry and its infrastructure have been identified as assets over which the north and south are likely to battle. As HTPG's Block C concession straddles the border between northern and southern Sudan, its concession area may be at particular risk of exposure to violence.

The area is already—and recently—insecure. In November 2010, the Sudan Armed Forces bombed the border area between South Darfur and Northern Bahr El Ghazal while targeting the Justice and Equality Movement (JEM), a rebel movement based in Darfur. The area overlaps with the APCO concession.[17]

### Abuses associated with oil exploration

Oil activities in southern Sudan have been associated with human rights abuses against populations living in concession areas, and there is a risk such abuses may be repeated, especially in the context of renewed conflict in Sudan. During the civil war fought between Sudan's north and south from 1983 to 2005, security forces associated with certain oil consortia were linked with numerous human rights violations, including forced displacement and violence against communities in project areas.

It appears that the Sudanese military has used force to secure concession areas in advance of HTPG's exploration activities in Block 12A.[18] In August 2008, Sudan Armed Forces launched major military operations against rebels in North Darfur, where foreign teams were reportedly engaged in exploration activities.[19]

### Direct targeting of company assets

While there are no reports of attacks on HTPG employees, attacks have affected operations in neighboring oil blocks. The JEM rebel group twice attacked Block 4 in 2007, kidnapping and later releasing five oilfield workers. After the kidnappings, JEM warned that it planned to continue targeting foreign oil firms.[20]

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[21] If any of HTPG's concessions enter production, the company might be tied to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south. Revenue from HTPG's northern concession would be even more material to the Sudanese government in the case of southern secession, given that the north stands to lose 60% to 75% of its revenue in that scenario.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement (SPLM).[22]

As HTPG's Block 12A concession is located in Sudan's north, associated revenue likely would not be subject to a revenue sharing agreement struck between the Government of Sudan and an independent south. However, any revenue produced by HTPG's Block C concession may be subject to such an agreement. Transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[23]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As of November 2010, HTPG is not implicated under the targeted Sudan divestment legislative model because it is not publicly traded.

Though HTPG is not publicly traded, it may have exposure on international financial markets. In June 2007, it was reported that Taqat Holding, a Kuwait-based holding company, had plans to purchase a majority stake in HTPG. Taqat is a subsidiary of the International Investment Group (IIG), an Islamic investment bank with shares listed on the Kuwait and Bahrain stock exchanges.[24] Taqat's website does not list HTPG as one of its subsidiaries, but reports suggest that some type of agreement was signed.[25]

## ENGAGEMENT

CRN has sent regular inquiries since 2007 requesting dialogue and further information regarding HTPG's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

HTPG has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether HTPG has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

HTPG is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

HTPG is not a UNGC participant.

### EITI

HTPG is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: HI-TECH PETROLEUM GROUP CO. LTD.

[1] "Memorandum on the Merowe Dam Project," International Rivers, January 29, 2007, at http://www.internationalrivers.org/chinas-global-role/africa/merowe-dam-sudan/memorandum-merowe-dam-project.

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[24] "A Strategy for Comprehensive Peace in Sudan," p. 11, International Crisis Group, July 26, 2007, at http://www.crisisgroup.org/~/media/files/africa/horn-of-africa/sudan/a%20strategy%20for%20comprehensive%20peace%20in%20sudan.ashx.

[25] "German Company Brought to Justice Over Abuses in Sudan Dam," International Rivers Network website, May 7, 2010, at http://www.internationalrivers.org/en/blog/peter-bosshard/2010-5-7/german-company-brought-justice-over-abuses-sudan-dam.

COMPANY

# HTC YEMEN INTERNATIONAL LIMITED

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **YEMEN** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost 2 million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups have stated a perception that companies partnering with the Government of Sudan in oil exploration are assisting it as a military opponent. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

HTC Yemen International Limited (HTC) is a private, Yemen-based company involved in the petroleum industry. The company has been active in Sudan since at least 1999.[3] HTC's operations in support of Greater Nile Petroleum Operating Company (GNPOC) oil production directly involve the company in a revenue stream that funds the military activities of the Sudanese government.

As the company is not publicly traded, HTC does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

HTC performs a range of industry-related work, from general maintenance, to pipeline construction and oilfield transportation services.[4] In 1999, HTC brought "heavy caterpillar equipment, Kenworth C-500 & 953 trucks, and an experienced crew for moving drilling rigs" to Sudan.[5] According to HTC's equipment manifest, similar heavy machinery remains in Sudan.[6] Some of it appears to have been used to assist with moving rigs in the Heglig oil producing region for the GNPOC.[7]

It appears that HTC has also contracted as recently as 2003 with ZPEB Corporation, a subsidiary of Sinopec, to provide transportation services in blocks 1, 2 and 4, which comprise the GNPOC consortium.[8] One of HTC's subsidiaries, International Oilfield Services, maintains machine shop service centers in Sudan. Though the shops have repair services relating to "deep hole boring," their relation to Sudan's oil industry is unclear.[9]

Reports from 2008 indicate that HTC maintains current operations relating to Sudan's oil industry, including the GNPOC project.[10]

## POTENTIAL CONCERNS AND RISKS

### Direct targeting of HTC assets

While threats against oilfield workers have primarily been directed against Chinese nationals, HTC's employees have been the targets of past violence. In October 2008, five of HTC's employees (Sudanese and Yemeni) were killed or kidnapped during an ambush.[11] The attack occurred while the employees were commuting between the Heglig region of South Kordofan and Mayom County in Unity State.[12] This took place shortly after the kidnapping and killings of a group of China National Petroleum Corporation (CNPC) employees who had been working for GNPOC in South Kordofan.[13]

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[14] Due to HTC's oil drilling services, it is tied directly to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in the Darfur region or in a potential future conflict with Sudan's south.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement (SPLM).[15]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

HTC is a privately held company and thus does not fall under the targeted Sudan divestment legislative model.

## ENGAGEMENT

CRN sent an initial inquiry to HTC Yemen in January 2009 requesting dialogue and further information regarding the company's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

HTC has not published a human rights policy or referenced human rights in its public materials.

### 2. Impact Assessments

No information is available on whether HTC has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

HTC Yemen is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

HTC Yemen is not UNGC participant.

### EITI

HTC Yemen is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: HTC YEMEN INTERNATIONAL LIMITED

[1] Jeffrey Gettleman, “War in Sudan? Not Where the Oil Wealth Flows,” New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

[2] “Sudan-Macroeconomic Policy,” African Economic Outlook, August 3, 2010, at http://www.africaneconomicoutlook.org/en/countries/east-africa/sudan/#macro_economic_policy; Paul J. Sullivan and Natalie Nasrallah, “Improving Natural Resource Management in Sudan,” p. 3, United States Institute of Peace, June 2010, at http://www.usip.org/resources/improving-natural-resource-management-in-sudan.

[3] Id.

[4] “The most important work done by the company with global important companies,” HTC Yemen International Limited website, at http://htc-intl.com/10Years.htm; “Home,” HTC Yemen International Limited website, at http://htc-intl.com/INDEX.htm.

[5] Id.

[6] “Equipments,” HTC Yemen International Limited website, at http://www.htc-intl.com/EQUIPMENTS.htm.

[7] “The most important work done by the company with global important companies for the last 10 year,” HTC Yemen International Limited website at http://htc-intl.com/10Years.htm.

[8] “Company’s achievement,” ZPEB International website, at http://www.zpebint.com/en/out/find_all_achievement.do?currentPage=6.

[9] “International Oil Field Services,” HTC Yemen International Limited website, at http://htc-intl.com/INOS.htm.

[10] “Conflict threatens Sudan’s oil Industry,” The National, November 2, 2008, at http://www.thenational.ae/article/20081102/BUSINESS/178164925/1005.

[11] “Conflict threatens Sudan’s oil Industry,” The National, November 2, 2008, at http://www.thenational.ae/article/20081102/BUSINESS/178164925/1005.

[12] “Three Yemenis Workers Killed and Two Missing n Southern Sudan,” Oil Voice, October 31, 2008, at http://www.oilvoice.com/n/Three_Yemenis_Workers_Killed_and_Two_Missing_in_Southern_Sudan/5ef70a07.aspx .

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[14] Jeffrey Gettleman, “War in Sudan? Not Where the Oil Wealth Flows,” New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1

[15] “Sudan—Fuelling Mistrust,” p. 19, Global Witness, 2009, at http://www.globalwitness.org/library/fuelling-mistrust-need-transparency-sudans-oil-industry.

COMPANY

# INDIAN OIL CORPORATION LIMITED (IOCL)

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **INDIA** | **OIL** | **PRIORITY ENGAGEMENT** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**LANKA IOC LTD.** (majority owned, publicly traded subsidiary)
**CHENNAI PETROLEUM CORPORATION LTD.** (majority owned, publicly traded subsidiary)

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Indian Oil Corporation Limited (IOCL) provides skills training in the petroleum sector, operates and maintains pipelines, refines crude oil, and manufactures petroleum products.[3] The company is majority owned by the Indian government,[4] and began seeking oil-related contracts in Sudan in 1999.[5] IOCL provides training and assistance for petroleum pipeline and refinery operations, activities defined as "Oil-Related Activities" under the targeted Sudan divestment legislative model. IOCL is therefore classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In 2002, IOCL reportedly partnered with Oil and Natural Gas Corporation's foreign exploration arm, ONGC Videsh Ltd. (collectively ONGC), to negotiate for a 25% stake in an offshore block in Sudan.[6] This does not appear to have been successful.[7]

As a member of an ONGC-led consortium, IOCL was initially awarded a 15% stake in a project intended to expand the Khartoum refinery and construct a pipeline from the refinery to Port Sudan in 2003.[8] Despite this initial awarding, it does not appear that IOCL was ultimately part of the pipeline venture; information suggests that the project was undertaken by a partnership composed of Oil India Limited and ONGC Videsh Limited.[9]

In September 2005, IOCL secured a contract with the Greater Nile Petroleum Operating Company (GNPOC), Sudan's largest oil consortium, to provide two training programs and an 18-month session on pipeline operations followed by a 14-month session on maintenance for consortium supervisors.[10] In September 2008, the company confirmed to CRN that this contract was ongoing.[11]

During the 2006-2007 fiscal period, GNPOC awarded IOCL a U.S. $839,000 contract to develop operation, inspection, maintenance procedures, and manuals for the consortium's pipeline facilities.[12]

IOCL provides training on various facets of downstream petroleum production, including on the job training, through its Indian Oil Institute of Petroleum Management (IIPM). Sudan is one of the nations that uses or used this training institute.[13] The IIPM program may be separate from IOCL's contract with GNPOC; IIPM's training focuses on downstream activities while IOCL's contract with GNPOC is focused on upstream activities.

The bilateral petroleum trading relationship between India and Sudan puts an emphasis on the training of Sudanese technicians in the petroleum sector. During the Indian petroleum minister's January 2010 visit to Sudan, India offered training assistance on refinery modernization and upgrades to Sudanese technicians.[14] As part of this package, IOCL offered its assistance on refinery upgrades, pipeline operation and maintenance, training of personnel, and consultancy services.[15] IOCL continues to seek exploration and production opportunities in Sudan.[16]

## POTENTIAL CONCERNS AND RISKS

### General potential for increasing instability and violence following anticipated southern secession in January 2011

There is a history of direct connections between the oil industry and conflict in Sudan. This is particularly true in the context of civil war between Sudan's north and south. It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence, and the oil industry and its infrastructure have been identified as assets over which the north and south are likely to battle.

Direct risks in this regard seem limited for IOCL, given that the company's activities primarily relate to providing trainings. The Sudanese government has assured Indian companies of "absolute security" in connection with their operations in the country.[17]

### Revenue stream

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[18]

IOCL may be linked indirectly with a key stream of revenue to the Sudanese government, which facilitates the Sudanese government's capacity for violence, whether in the Darfur region or in a potential conflict with Sudan's south. Its training and other services for the GNPOC consortium presumably assist its production abilities. GNPOC's fields include Heiglig, which has been estimated to provide 30% of Sudan's oil.[19]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As IOCL is involved in providing training and services for oil pipeline and refining operations, activities defined as "Oil-Related" under the targeted Sudan divestment legislative model, the company is classified as "Scrutinized."

## ENGAGEMENT

IOCL replied in September 2007 to an inquiry from CRN requesting dialogue and further information regarding the company's Sudan-related operations. Most recently, CRN reached out to IOCL in October 2010 to discuss issues of security, revenue transparency and the upcoming referendum on southern independence scheduled for January 2011 as part of a CRN priority engagement effort. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

In its 2009 sustainability report, Growth with Sustainability, IOCL states that it conforms to universal human rights principles and places the highest priority on preventing human rights violations.[20] In its accession letter for the UN Global Compact (UNGC), the company expressed support for the ten principles of the UNGC, which include support for and respect of internationally proclaimed human rights and avoiding complicity in human rights abuses.[21]

### 2. Impact Assessments

No information is available on whether IOCL has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

In its 2009 sustainability report, Growth with Sustainability, the company aligns its reporting with the GRI index guidelines, including the GRI's human rights performance indicators.[22]

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

IOCL is not a VPSHR participant.

### UN Global Compact

IOCL has been a UNGC participant since April 21, 2001. The company also is a founding member of the Global Compact Society (India).[23]

### EITI

IOCL is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

# NOTES: INDIAN OIL CORPORATION LIMITED (IOCL)

[1] Jeffrey Gettleman, "War in Sudan? Not Where the Oil Wealth Flows," New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

[2] "Sudan-Macroeconomic Policy," African Economic Outlook, August 3, 2010, at http://www.africaneconomicoutlook.org/en/countries/east-africa/sudan/#macro_economic_policy; Paul J. Sullivan and Natalie Nasrallah, "Improving Natural Resource Management in Sudan," p. 3, United States Institute of Peace, June 2010, at http://www.usip.org/resources/improving-natural-resource-management-in-sudan.

[3] "Profile: Indian Oil Corporation," Indian Oil Corporation Limited website, at http://www.iocl.com/AboutUs/Profile.aspx.

[4] As of May 2010 Bloomberg LP indicates that the Indian government owns 78.[92]% of IOCL.

[5] "Technical Concerns—Oil and Pressure," Sudan News Agency, posted on Sudan Update, February 19, 2002, at http://www.sudanupdate.org/REPORTS/Oil/18tc.html; For example, IOCL was actively bidding for oil and gas equity opportunities in 2002 . See "Directors' Report, including Management Discussion and Analysis," p.[36], Indian Oil Corporation Limited website, 2002, at www.iocl.com/downloads/IOC_Annual_Report_0102.pdf (discussing that IOCL was actively bidding for oil and gas equity opportunities in 2002) (link no longer available; copy retained by CRN).

[6] "ONGC Acquires Stake in Oman and Sudan Fields," Rigzone, March 28, 2002, at http://www.rigzone.com/news/article.asp?a_id=2955.

[7] Id.

[8] "ONGC floats tender for Sudan pipeline project," Projects Monitor website, March 1 2004, at http://www.projectsmonitor.com/detailnews.asp?newsid=7503.

[9] "Assets: Africa" ONGC Videsh website, at http://www.ongcvidesh.com/Assets.aspx (last accessed January 27, 2010).

[10] "India to train Sudanese pipeline engineers," Indo-Asian News Service, posted on Sudan Tribune, September 11, 2005, at http://www.sudantribune.com/spip.php?article11575; "Services—Pipelines," Indian Oil Corporation Ltd. website, September 29, 2007, at http://www.iocl.com/Services/Pipeline.aspx.

[11] Indian Oil Corporation Limited correspondence with CRN, September 6, 2007.

[12] "Annual Report 2007-08," p.[27], Indian Oil Corporation Limited website, posted at Bloomberg LP (link no longer available; copy retained by CRN); A. Uplenchwar, "Director Review," p.[37], Indian Oil Corporation Limited website, 2006, at www.iocl.com/downloads/Director_Review.pdf (link no longer available; copy retained by CRN).

[13] "Training & Development Services," Indian Oil Corporation Limited website, at http://www.iocl.com/Services/TrainingDevelopmentServices.aspx; "Indian Oil Campus," Indian Oil Corporation Limited website, July 1, 2010, at http://www.iocl.com/PeopleCareers/IndianOilCampus.aspx.

[14] See "Deora seeks to resolve OVL's payment dispute," The Hindu Business Line, January 25, 2010, at http://www.thehindubusinessline.com/blnus/14251715.htm; See also "Deora in Sudan to resolve OVL's pay dispute," Rediff, January 25, 2010, at http://business.rediff.com/report/2010/jan/25/deora-in-sudan-to-resolve-ovls-payment-dispute.htm.

[15] Rajeev Jayaswa, "African nations offer great opportunities to us: Murli Deora," The Economic Times, February 8, 2010, at http://economictimes.indiatimes.com/opinion/interviews/African-nations-offer-great-opportunities-to-us/articleshow/5546688.cms.

[16] "Mauritius invites Indian Oil to take up LPG distribution," Indian Oil Corporation Limited website, November 8 2007, at http://www.thehindubusinessline.com/2007/11/08/stories/2007110852140300.htm; Utpal Bhaskar and Rahul Chandran, "India seeks to edge out China in Sudan," Live Mint, December 11, 2009, at http://www.livemint.com/2009/12/11003137/India-seeks-to-edge-out-China.html.

[17] "India seeks more crude oil from Angola," Business Line, October 31, 2010, at http://www.thehindubusinessline.com/2010/11/01/stories/2010110151650600.htm.

[18] Jeffrey Gettleman, "War in Sudan? Not Where the Oil Wealth Flows," New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1

[19] "Sudan's Oil Industry: Facts and Analysis," European Coalition on Oil in Sudan, April 2008, at http://www.ecosonline.org/reports/2008/dossier%20final%20groot%20web.pdf.

[20] Growth with Sustainability: A Vision. A Responsibility," p.66, Indian Oil Corporation Limited, 2010, at http://www.iocl.com/Aboutus/HumanRights2303.pdf.

[21] Indian Oil Company: Letter of Commitment," United Nations Global Compact website, April 28, 2010, at

http://www.unglobalcompact.org/system/commitment_letters/5146/original/COP.pdf?1272443065.

[22] Growth with Sustainability: A Vision. A Responsibility," p.91, Indian Oil Corporation Limited, 2010, at http://www.iocl.com/Aboutus/HumanRights2303.pdf.

[23] Growth with Sustainability: A Vision. A Responsibility," p.66, Indian Oil Corporation Limited, 2010, at http://www.iocl.com/Aboutus/HumanRights2303.pdf.

COMPANY

# JIANGXI HONGDU AVIATION INDUSTRY CO. LTD.

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **CHINA** | **MILITARY EQUIPMENT** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan has been host to numerous conflicts featuring large levels of violence targeted against civilians. Since 2003, the Sudanese military and proxy militias have conducted a campaign in Darfur—characterized by the U.S. government as genocide—that has resulted in the deaths of at least 200,000 people. Twenty-two years of civil war between Sudan's north and south concluded in 2005 when the Government of Sudan and the Sudan People's Liberation Movement signed the Comprehensive Peace Agreement (CPA). That war had led to the deaths of two million Sudanese.

It is widely predicted that southern Sudan will secede from the north following a January 2011 referendum on independence. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

It is difficult for companies with arms-related business to do no harm in this context. In the event conflict erupts around the 2011 referendum, their products will play a central role in facilitating violence, increasing the potential for heightened impacts on civilians. Already, heightened tensions have led to troop buildup along north-south border regions and to increased weapons proliferation amongst civilians.[1]

While a United Nations embargo[2] prohibits the provision of military equipment to parties in Darfur, and U.S.[3] and European Union sanctions[4] restrict the trade of arms more generally, materials have repeatedly found their way to restricted areas.[5] Foreign actors have been important partners. Military aircraft from Russia and China have been used in attacks in Darfur, and China, Iran, Russia, Ukraine, and Belarus are reported to be Sudan's main suppliers of small arms.[6]

Recent studies indicate that the transfer of arms to all parts of Sudan continues apace and is in some cases increasing, with patterns, actors, and methods of distribution similar to those seen during the last civil war between the north and the south.[7]

### Company

Jiangxi Hongdu Aviation Industry Co. Ltd. (Hongdu Aviation), formerly a subsidiary of AviChina Industry & Technology Ltd. (AviChina), is a major Chinese producer of attack, training and light aircraft.[8] The company is involved in the full production of these aircraft from development to sales.[9] Hongdu Aviation has been doing business with Sudan since at least 2005, when it began deliveries of military aircraft to the government.[10] Aircraft sold to the Sudanese government are at risk of being used in Darfur despite a United Nations embargo on weapons transfers to the region.

Hongdu Aviation's aircraft meet the definition of "Military Equipment" under the targeted Sudan divestment legislative model, and the company is therefore considered to have "Scrutinized Business Operations."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Beginning in 2005, Hongdu Aviation delivered K-8 military training aircraft to the Sudanese Air Force. These deliveries lasted until 2008, at which point the company had reportedly delivered 12 K-8 aircraft.[11] These jets could be used by the Sudanese Air Force "not only for training missions such as take-offs, landings, spin and night flights, but also for armed operations training."[12]

CRN is attempting to verify whether Hongdu Aviation has made additional sales, and whether any previous contracts involved ongoing obligations such as those for repair or maintenance of equipment.

Sudan may continue to look to Chinese companies for military equipment. In late October 2007, a Sudanese military delegation inspected Chinese-made aircraft at the Zhuhai Air Show, held in China's Guangdong province. They reportedly examined K-8 aircraft, the same models delivered to Sudan by Hongdu Aviation in May 2007. The Sudan Armed Forces already use Chinese-made tanks and fighters, as well as several other Chinese weapon models.[13]

## POTENTIAL CONCERNS AND RISKS

### Use of company product for military purposes

Though the existing United Nations arms embargo prohibits the sale of military materials if for use in Darfur, it allows other sales to the Sudanese government, and there is a risk that Hongdu Aviation's products ultimately will assist military actions in Darfur or other areas of Sudan. The Sudanese government has regularly moved weapons and military equipment into Darfur despite the UN embargo, and a UN panel of experts concluded in October 2009 that numerous other armed actors in Darfur continued to violate the embargo as well.[14]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Companies that supply "Military Equipment" within Sudan are considered "Scrutinized" under the targeted Sudan divestment legislative model. Because "Military Equipment" includes military-grade vehicles and other equipment that readily may be used for military purposes, Hongdu Aviation's sales to the Sudanese government appear to qualify it as having "Scrutinized Business Operations" under the targeted model.

Hongdu Aviation was formerly a majority held subsidiary of AviChina, the largest helicopter manufacturer in China, and one of the country's major aircraft manufacturers.[15] As of November 2010, AviChina continues to be a minority shareholder of Hongdu Aviation.[16]

## ENGAGEMENT

Since 2007, CRN sent regular inquiries to Hongdu Aviation's former parent, Avichina, requesting dialogue and further information regarding its Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Hongdu Aviation has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether Hongdu Aviation has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

Hongdu Aviation is not a UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on the board-level involvement on human rights-related risks and concerns.

## NOTES: JIANGXI HONGDU AVIATION INDUSTRY CO. LTD.

[1] "North, south Sudan trade accusations of troop build-up," Reuters, September 27, 2010, at http://www.alertnet.org/thenews/newsdesk/HEA749890.htm; "Report: Arms Race in Sudan, Two Millions Weapons Among Civilians," Enough Project website, December 18, 2009, at http://www.enoughproject.org/blogs/report-arms-race-sudan-2-million-weapons-among-civilians.

[2] Mike Lewis, Skirting the Law: Sudan's Post-CPA Arms Flows, Small Arms Survey HSBA Working Paper 18, September 2009, Geneva.

[3] Sudan: Overview of Sanctions," U.S. Department of the Treasury, Office of Foreign Assets Control, July 25, 2008, at http://www.treas.gov/offices/enforcement/ofac/programs/sudan/sudan.pdf.

[4] Mike Lewis, Skirting the Law: Sudan's Post-CPA Arms Flows, Small Arms Survey HSBA Working Paper 18, September 2009, Geneva.

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COMPANY

# JX HOLDINGS, INC.

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **JAPAN** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**JX NIPPON OIL & ENERGY** (wholly owned subsidiary with Sudan-related operations)
**NIPPON OIL CORPORATION** (wholly owned subsidiary)
**NIPPON OIL FINANCE** (wholly owned subsidiary)
**NIPPON MINING HOLDINGS** (wholly owned subsidiary)

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

JX Holdings, Inc. (JX Holdings) is a fully-integrated oil and gas company formed through the July 2010 merger of Nippon Oil Corporation (Nippon Oil) and Nippon Mining Holdings (Nippon Mining). The company's operations in Sudan are limited to the purchase of crude oil produced in the country.[3] Though JX Holdings does not appear to have a physical presence within Sudan, its transport of crude oil may assist the Sudanese government in generating revenue from its oil industry. JX Holdings' purchase of Sudanese crude oil constitutes "Oil-Related Activities" under the targeted Sudan divestment legislative model, and is classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

As early as October 2002, Sudan was cited as one of Nippon Oil's top suppliers in Africa.[4] By 2007, Nippon Oil was importing an estimated 70,000 to 80,000 barrels of Sudanese Nile Blend oil per day.[5] At the time, this represented between 5% and 6% of Nippon Oil's overall refinery capacity of nearly 1.32 million barrels per day.[6]

As recently as 2009, Nippon Oil confirmed on its website its purchases of Sudanese crude oil, which it valued for its cost and low-sulfur content.[7] However in communications with CRN, Nippon Oil reported its purchases of Sudanese crude oil were made through international traders and "other entities," and that it "has never entered into direct contracts with the Sudanese government or Sudan's state-owned oil company [Sudapet]."[8]

In the past, the company has stated that it would have difficultly finding adequate replacements for its Sudanese sources of crude oil. However, the company is "working diligently today to secure alternative sources."[9] Given these statements, it is likely that Nippon Oil (now JX Holdings) continues to purchase Sudanese crude oil. JX Nippon carries out JX Holdings' oil trading, refining, and selling duties.[10]

## POTENTIAL CONCERNS AND RISKS

### Revenue stream

JX Holdings does not have a presence on the ground in Sudan, so it is not associated directly with some of the industry's immediate risks and impacts such as displacement, kidnapping of workers, attacks on facilities, and environmental degradation. It is, however, associated with a revenue stream to the Sudanese government. Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[11] Through its purchases of Sudanese crude oil, JX Holdings is tied to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

JX Holdings' purchase of Sudanese Nile Blend crude oil constitutes "Oil-Related Activities" under the targeted Sudan divestment legislative model, and the company is therefore classified as "Scrutinized."

## ENGAGEMENT

CRN sent an initial inquiry requesting dialogue and further information regarding Nippon Oil's Sudan-related operations in 2007. Since November 2008, CRN has been in annual contact with Nippon Oil (now JX Holdings), in which the company has stated that it does not believe its business calls for scrutiny under the targeted model or other U.S.-based legislation. Despite the company's view, it is profiled in this report due to its purchases of Nile Blend crude oil.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

In its Social Responsibility Report and 2009 Annual Report, JX Holdings' predecessor Nippon Oil stated that the company was committed to respecting human rights and dignity.[12] Similarly, Nippon Mining's corporate Code of Conduct states the company will aim to "protect the fundamental human rights of people in countries and areas where we operate."[13]

JX Holdings defines its human rights policy as working to contributing to the "development of a sustainable economy and society."[14] Additionally, according its 2010 UNGC Communication on Progress, the company's subsidiary JX Nippon has created a corporate human rights policy. It has not published this policy on its website.[15]

### 2. Impact Assessments

No information is available on whether JX Holdings has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

JX Holdings' predecessor, Nippon Oil, had promoted human rights awareness as part of its corporate social responsibility (CSR) activities.[16] However, it provided no details on the program or how human rights may be integrated into the company's activities. JX Holdings has not published more current information.

### 4. Human Rights Tracking and Reporting

JX Holdings' predecessor Nippon Oil's CSR Report 2009 references the GRI G3 guidelines, but does not state whether the company follows the guidelines in its annual reporting. Nippon Mining's Sustainability Report 2009 states that the company follows the GRI G3 guidelines.[17] However, neither entity publishes GRI indicators as they relate to human rights concerns. A report is available on the GRI website but is only offered in Japanese.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

JX Holdings has been a UNGC participant since April 9, 2010.

### EITI

JX Holdings is not a member of EITI. However, the company's subsidiary JX Mining & Minerals is an EITI supporter.[18]

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

JX Holdings' predecessor, Nippon Oil, had established a CSR committee, chaired by the Representative Director and company President.[19] This committee had established a human rights sub-committee, but it appears that this sub-committee dealt primarily with work-life balance issues. Nippon Mining also had a corporate social responsibility committee serving as advisors to the company president.[20]

## NOTES: JX HOLDINGS, INC.

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COMPANY

# K&K CAPITAL GROUP

| COUNTRY | SECTOR | CRN CLASSIFICATION |
| --- | --- | --- |
| CYPRUS | OIL | WATCH LIST |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

K&K Capital Group (KKCG) is a multinational private finance group, headquartered in Cyprus, that specializes in the oil and gas industry, finance and investments.[3] KKCG has Sudan-related operations through its investment in Moravské naftové doly (MND Group), part of its KKCG Oil & Gas portfolio.[4]

KKCG's oil operations might have provided the Sudanese government with revenue enabling the government to carry out military operations in the Darfur region or prepare for renewed conflict between Sudan's north and south. KKCG does not fall under the targeted Sudan divestment legislative model, because it is not publicly traded.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

KKCG appears to have first purchased exploration licenses through MND Exploration & Production Limited, a subsidiary of MND Group, which signed agreements with Zaver Petroleum Corporation Limited in October 2006 to enter two oil blocks.[5] By February 2007, KKCG Oil & Gas owned a 42% stake in blocks 9 and 11.[6] MND Group made it clear it considered Sudan a new market,[7] and in 2007, KKCG's owner Karel Komárek announced his intention to invest over U.S. $26 million in surveying in Sudan between 2007 and 2009.[8] This appears to refer to blocks 9 and 11.

Exploration in Block 9 began in November 2006, with the drilling of the Hassan-1 well,[9] and continues into 2010. Sinopec subsidiary Zhongyuan Petroleum Exploration Bureau International (ZPEB) announced in February that it was awarded seismic survey contracts by clients operating in Block 9.[10] However, ZPEB made no reference to any specific Block 9 stakeholders in this announcement.

In June 2008, Nile Valley Petroleum Limited (NVPL), a platform company of Egypt-based Citadel Capital, acquired 36% of both blocks 9 and 11.[11] It is unclear how the entry of NVPL has affected MND Group's operations or the relationship between KKCG, its MND Exploration & Production subsidiary and Zaver Petroleum. It also remains to be seen how Zaver Petroleum's declaration that it will sell its interests in its Sudan properties will affect KKCG, MND Group or its affiliates.[12]

Exploration has begun in Block 11, where at least one dry well was drilled in August 2009,[13] but according to Citadel Capital, as of March 2010 there has been no discovery or production in either Block 9 or Block 11.[14]

In February 2009, MND Group's website stated that MND Exploration & Production Limited still held shares in exploration licenses in Sudan.[15] But by May 2009, this information appeared to have been removed.[16] Additionally, a KKCG presentation drafted in October 2009 did not list any KKCG Oil and Gas operations in Sudan,[17] which would include MND Group and MND Exploration and Production. It is unclear if this represents an end to the involvement of MND Group or KKCG in Sudan's petroleum sector.

## POTENTIAL CONCERNS AND RISKS

### Ongoing local instability and potential for increasing instability, violence, and insecurity following anticipated southern secession in January 2011

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Because the Government of Sudan and the regional Government of South Sudan currently rely on oil for 63% and 98% of their respective revenues, and the regions have not yet stuck an agreement on sharing revenue in the case of southern secession, many fear that the referendum and secession might trigger violence between the north and south. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

Of concern is the history of human rights abuses associated with the oil industry during conflict in Sudan. During the war between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks on, and intentional targeting of, civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields.

### Potential impacts of exploration activities on local populations

Oil exploration in Sudan has affected local water supplies and led to population displacement in the past. Land is a scarce resource in Sudan, and growth in human and livestock populations has increased completion for it and worsened its degradation, already a problem due to desertification caused by climate changes and unhealthy livestock, arboricultural and farming techniques. The increasing scarcity of land has increased tensions between pastoralists and agriculturalists, which are heightened by an influx of arms.[18] There is a risk that oil exploration could increase land degradation and population displacement, create or exacerbate tensions between communities, and lead to anger towards related oil projects and companies as well.

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and a recent civil war between the north and south.[19] In the event that KKCG's blocks enter production, the company will be tied to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south. Such a stream would be even more material to the Sudanese government in the case of southern secession, given that the north stands to lose 60% to 75% of its revenue in that scenario.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement.[20] The CPA brought an end to 22 years of civil war between Sudan's north and south, which had led to the deaths of two million Sudanese.

Because KKCG's concessions are in Sudan's north, any revenue produced likely would not be subject to a revenue sharing agreement with the south. Transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty, and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[21]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

KKCG is not a publicly traded company, and therefore does not fall under the targeted Sudan divestment legislative model.

## ENGAGEMENT

CRN sent an inquiry in November 2008 requesting dialogue and further information regarding KKCG's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

KKCG has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether KKCG has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

KKCG is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

KKCG is not UNGC participant.

### EITI

KKCG is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

# NOTES: K&K CAPITAL GROUP

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COMPANY

# KAMAZ

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **RUSSIA** | **MILITARY EQUIPMENT** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**NEFKAMSKY AVTOZAVOD AKA NEFAZ** (majority owned, publicly traded subsidiary)

## CONTEXT OVERVIEW

### Industry

Sudan has been host to numerous conflicts featuring large levels of violence targeted against civilians. Since 2003, the Sudanese military and proxy militias have conducted a campaign in Darfur—characterized by the U.S. government as genocide—that has resulted in the deaths of at least 200,000 people. Twenty-two years of civil war between Sudan's north and south concluded in 2005 when the Government of Sudan and the Sudan People's Liberation Movement signed the Comprehensive Peace Agreement (CPA). That war had led to the deaths of two million Sudanese.

It is widely predicted that southern Sudan will secede from the north following a January 2011 referendum on independence. Human rights advocates, political leaders and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

It is difficult for companies with arms-related business to do no harm in this context. In the event conflict erupts around the 2011 referendum, their products will play a central role in facilitating violence, increasing the potential for heightened impacts on civilians. Already, heightened tensions have led to troop buildup along north-south border regions and to increased weapons proliferation amongst civilians.[1]

While a United Nations embargo[2] prohibits the provision of military equipment to parties in Darfur, and U.S.[3] and European Union sanctions[4] restrict the trade of arms more generally, materials have repeatedly found their way to restricted areas.[5] Foreign actors have been important partners. Military aircraft from Russia and China have been used in attacks in Darfur, and China, Iran, Russia, Ukraine and Belarus are reported to be Sudan's main suppliers of small arms.[6]

Recent studies indicate that the transfer of arms to all parts of Sudan continues apace and is in some cases increasing, with patterns, actors, and methods of distribution similar to those seen during the last civil war between the north and the south.[7]

### Company

KAMAZ Inc. (KAMAZ), the largest automotive manufacturer in the Russian Federation, specializes in manufacturing heavy-grade trucks and diesel engines.[8] KAMAZ's largest shareholder is the Russian Federation, which has been criticized for selling military equipment to Sudan.[9] It appears that the company conducts sales, service, and maintenance through a local dealer.[10] KAMAZ's military-grade transport vehicles meet the definition of "Military Equipment" under the targeted Sudan divestment legislative model; however more information about the company is required to determine if it should be considered "Scrutinized" under the model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

KAMAZ conducts its Sudan-related business through a local dealer, Gezira Trade & Services Co. Ltd. (GTS), the sole Sudanese dealer of KAMAZ trucks and a provider of after-sale service and truck maintenance.[11] In 2005, KAMAZ's Director General acknowledged exporting vehicles to Sudan.[12] Information from GTS states KAMAZ exported 464 tippers (dump trucks) and 329 tractors to Sudan between 2003 and 2006.[13] The Director General also has stated that KAMAZ planned to assemble KAMAZ trucks in Sudan,[14] but as of 2008 an assembly project was still listed by KAMAZ as a "prospective project."[15]

In 2006, KAMAZ expanded its operations in Sudan, building two service centers in the country.[16] It is unclear if GTS's two workshops in Sudan refer to the aforementioned KAMAZ service centers.

While KAMAZ manufactures both military and non-military vehicles, it is unclear whether the company exports vehicles to Sudan for military use. In the context of discussing KAMAZ's sales to Sudan and other countries, the company's Director General noted armies' interest in KAMAZ's vehicles, which he said are affordable, capable of solving tactical tasks, and suitable for the cross-country desert environment.[17] It appears that the Sudanese military has been interested in KAMAZ vehicles in the past, with a Sudanese military delegation visiting the KAMAZ factory in 2005.[18] In the past, KAMAZ has highlighted the utility of its trucks for military applications,[19] and the Russian Ministry of Defense is one of the company's largest customers.[20]

Since 2002, KAMAZ has been an official supplier of trucks to the United Nations.[21] In Sudan, KAMAZ trucks have been used by both the African Union Mission in Sudan and the United Nations-African Union Mission in Darfur.[22]

## POTENTIAL CONCERNS AND RISKS

### Use of company product for military purposes

Though the existing United Nations arms embargo prohibits the sale of military materials if for use in Darfur, it allows other sales to the Sudanese government, and there is a risk that KAMAZ's products will ultimately assist military actions in Darfur or other areas of Sudan. The Sudanese government has regularly moved weapons and military equipment into Darfur despite the UN embargo, and a UN panel of experts concluded in October 2009 that numerous other armed actors in Darfur continued to violate the embargo as well.[23]

There is also evidence that commercial trucks exported to Sudan have been retrofitted for offensive use in Darfur. Eyewitnesses alleged that during a December 2007 attack by government soldiers in West Darfur, vehicles fitted with Chinese-made anti-aircraft guns were used to fire at civilian dwellings, killing a number of women.[24]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

"Military Equipment" under the targeted model includes military-grade vehicles and other equipment that readily may be used for military purposes; however more information on KAMAZ's activities is necessary to determine if the company should be considered "Scrutinized" under the model.

KAMAZ's provision of vehicles or services to the United Nations-African Union Mission in Darfur and the African Union Mission in Sudan is not considered "Scrutinized" under the targeted Sudan divestment legislative model.

## ENGAGEMENT

KAMAZ expressed interest in response to CRN's initial request for dialogue and further information regarding the company's Sudan-related operations in August 2007, but further CRN inquiries have gone unanswered.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

KAMAZ has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether KAMAZ has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

KAMAZ is not a UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

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COMPANY

# KUWAIT FOREIGN PETROLEUM EXPLORATION COMPANY

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **KUWAIT** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Kuwait Foreign Petroleum Company (KUFPEC) is the foreign exploration arm of Kuwait's national petroleum company, Kuwait Petroleum Corporation (KPC). Since 1980, KUFPEC has held a 27.5% stake in Sudan's Block B oil concession.[3] Even though the company is not currently involved in exploration and production activities in the Block B concession, KUFPEC's stake may lead to potential association with numerous concerns, including environmental and social impacts linked to exploration and production activities and insecurity in concession areas.

As the company is not publicly traded, KUFPEC does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

KUFPEC secured a 25% stake in Sudan's Block B in November 1980. At that time, KUFPEC's consortium partners were Marathon Petroleum Sudan Limited, a wholly-owned subsidiary of U.S.-based Marathon Oil Company (32.5%), Total E&P Soudan, a subsidiary of Total SA (32.5%), and Sudan's state oil company, Sudapet (10%).[4]

The consortium suspended field operations in 1985 due to deteriorating security conditions related to Sudan's north-south civil war, but retained rights to the block through a U.S. $1 million annual renewal fee paid to the Government of Sudan.

In December 2004, Total renegotiated the terms of the Exploration and Production Sharing Agreement (EPSA) for Block B, which now states that "the Parties shall mutually agree upon a Resumption Date when the petroleum operations can be undertaken physically in the contract area."[5]

Despite the January 2005 signing of the Comprehensive Peace Agreement ending Sudan's north-south civil war, operations have yet to resume on Block B. Until June 2007 this was due to a legal dispute with UK-based White Nile Limited. The regional Government of South Sudan had awarded them rights for Block Ba, a 67,500 square kilometer section of the larger Block B, where Total owned a stake through its agreement with the Government of Sudan.[6]

The National Petroleum Commission's (NPC) 2007 resolution resolved the dispute between Total and White Nile and defined the constitution of the new Block B consortium after the withdrawal of Marathon Oil Company.[7] Total retained its 32.5% stake in Block B, KUFPEC increased its stake to 27.5%, Sudapet retained its 10% stake, 10% was awarded to the Government of South Sudan's Nile Petroleum Corporation (Nilepet), and the remaining 20% will be awarded to a new company selected jointly by Total, KUFPEC, the Government of Sudan, and the Government of South Sudan. Under the agreement, South Sudan's president, Salva Kiir, is to give the final approval for the choice of the new company.[8]

Mubadala Development Company (Mubadala), a commercial conglomerate owned wholly by the Emirate of Abu Dhabi, was linked to Block B's vacant 20% stake until August 2009, when the NPC revoked its offer due to Mubadala's failure to finalize the transaction.[9] Star Petroleum, a private Luxemburg-based company, announced in January 2010 that the NPC had selected it to take the remaining 20% interest in the Block B consortium.[10] Despite this announcement, which has not been confirmed by Block B's other partners, exploration in Block B has yet to begin.

In September 2009, the NPC determined that exploration in Block B must begin as soon as the consortium is restructured.[11] Total has said its plans to recommence exploration are subject to this restructuring and the resolution of a number of other outstanding issues.[12] In April 2010, Total chief executive Christophe de Margerie said that the political situation between northern and southern Sudan is still too unclear to begin exploration.[13]

Once it does commence operations, Block B exploration activities will most likely focus on the Jonglei basin and the Pibor and Tali Post areas. During the first year of operations, Total plans to drill one well in Jonglei and acquire additional seismic data on the block. If exploration activities result in the discovery of oil, it would be several years before production operations could begin.[14]

## POTENTIAL CONCERNS AND RISKS

### Local insecurity in Jonglei state and general potential for increasing instability, violence, and insecurity following anticipated southern secession in January 2011

KUFPEC's concession is located in Jonglei state, an unstable area that has experienced increasing violence and insecurity in recent years. Armed conflict during 2009 and 2010 resulted in at least 1,800 deaths,[15] and in July 2009 the United Nations Mission in Sudan (UNMIS) acknowledged "clear grounds for concern about the security situation" in areas within or adjacent to Block B.[16] Intertribal violence in Jonglei State continues in 2010, with at least some of it within Block B.[17] Though recent violence does not appear to be related to oil activities, it could lead to or require the presence or use of security forces in the event Total commences exploration activities.

It is widely predicted that southern Sudan, which holds most of Sudan's oil (and KUFPEC's concession), will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively. The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, the oil industry and its infrastructure have been identified as assets over which the north and south are likely to battle.

Of concern is the history of abuses associated with the oil industry during conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. The potential for a return to major conflict between Sudan's north and south raises concerns about a return to this kind of violence and the potential for it to occur in KUFPEC's concession area.

## Potential impacts of exploration activities on local populations

Oil activities in southern Sudan have been associated with human rights abuses against populations living in concession areas, and there is a risk such abuses may be repeated, especially in the context of renewed conflict in Sudan. Environmental impacts are also known to accompany some oil activities. This includes the pollution of surface and groundwater sources.[18] Oil exploration has affected local communities' ability to access unpolluted water sources for personal and agricultural use, and roads built to service oil installations have shifted the direction of water flows, causing localized droughts and flooding.[19] In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards oil projects and companies.

Block B's revised EPSA was signed in 2004 and states that "the Parties shall mutually agree upon a Resumption Date when the petroleum operations can be undertaken physically in the contract area."[20] According to KUFPEC's consortium partner, Total, the EPSA "[takes] account of new international standards, in particular with regard to corporate social responsibility."[21]

## Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[22] If Block B enters production (and revenues from southern concessions continue to flow to the Government of Sudan), KUFPEC may be tied directly to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in the Darfur region or in a potential conflict with Sudan's south.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement (SPLM).[23]

Though KUFPEC's concession is in the south, oil produced by the concession would rely on northern infrastructure for export, meaning associated revenue would likely be subject to any revenue sharing agreement struck between the Government of Sudan and the Government of South Sudan. Transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty, and instability. Global Witness, a UK-based non-governmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[24]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

In 2007, KUFPEC was reportedly considering an Initial Public Offering (IPO) on the Kuwait Stock Exchange.[25] This IPO appears to have been delayed.[26]

As of November 2010, KUFPEC is not a publicly traded company. Therefore it does not fall under the targeted Sudan divestment legislative model.

## ENGAGEMENT

Since 2007, CRN has sent regular inquiries requesting dialogue and further information regarding KUFPEC's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

KUFPEC has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether KUFPEC has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

KUFPEC is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

KUFPEC is not a UNGC participant.

### EITI

KUFPEC is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: KUWAIT FOREIGN PETROLEUM EXPLORATION COMPANY

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COMPANY

# LA MANCHA RESOURCES

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **CANADA** | **MINING** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SUBSTANTIAL ACTION**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan is believed to have significant mineral resources, but it is not a significant mineral producer. The country's mining industry is relatively underdeveloped,[1] with mining and quarrying operations responsible for only 0.2% of the national GDP.[2]

This may change, given the northern government's increasing efforts to diversify its economy in advance of a January 2011 referendum on southern independence. It is widely predicted that southern Sudan will vote to secede from the north in 2011, a scenario which presents the north with the possibility of losing a great percentage of its most important source of revenue, oil. Southern Sudan holds an estimated 85% of the country's oil, which provides the north with 63% of its revenue and 15.5% of its GDP.[3]

As part of its efforts to diversify, the northern government plans to more than double its gold production to 50 metric tons annually in 2011.[4] This would increase the overall importance of gold as a revenue stream for the Sudanese government, which is said to funnel much of its income to the military, which has been connected directly to violent conflict in Darfur and a civil war between Sudan's north and south that resulted in two million deaths.[5] In addition to gold, Sudan also is reportedly rich in silver, lead, zinc, copper, iron, and barium. Sudan's Mining Minister stated in November 2010 that the country is experiencing "a rush" from foreign firms interested in gold exploration, including from Australia, Europe, and the United States, and that it had signed 45 agreements in 2010 and plans on signing 50 more in 2011.[6]

Unlike many of Sudan's oil-related projects, mining activities have thus far taken place primarily in largely unpopulated areas in the northeast and consequently are generally not associated with large scale displacement, security risks, and other negative impacts on local communities. Artisanal mining is an important source of income for some Sudanese, however, and fatal violence has broken out when the government has sought to remove miners from promising tracts allocated to foreign mining firms.[7] To achieve its ambitious increase in gold production, the government plans to tighten regulations on small-scale miners, and expand concessions to foreign mining companies, creating potential for increased tension and similar conflicts in the future.[8]

The "rush" to sign more mining agreements may lead to activities in areas other than Sudan's northeast—for example the Nuba mountains—meaning displacement, potential for insecurity, and other negative local impacts could be of concern. Sudan's Mining Minister announced recently that new concessions will be offered in 2011 in the Darfur region, an area that has been the site of targeted violence against civilians (identified as genocide by the U.S. government), the deaths of at least 200,000 since 2003, and ongoing clashes between armed groups and government forces.

### Company

La Mancha Resources (La Mancha), a Canadian company, formed in September 2006 through a merger with the gold assets of France-based Areva Group (Areva).[9] La Mancha manages and operates Sudan's only producing gold mine, and holds stakes in several exploration concessions. In 2007, the company took "Substantial Action," which removed it from classification as a "Scrutinized" company under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In 2006, La Mancha acquired a 40% operating stake in the Ariab Mining Company (AMC), a Khartoum-created mining consortium, from French multinational, Areva.[10] AMC is owned jointly by La Mancha (40%), the Sudanese government (56%), and private French entities (4%).[11] La Mancha manages and operates the Hassaï Mine, Sudan's only producing gold mine,[12] and also has a 70% ownership stake in the Tumluk prospect in Southern Kordofan.[13]

The Hassaï Mine is located in the middle of the Red Sea Hills desert, approximately 200 km west of Port Sudan. Since it began producing in 1992, the mine has yielded more than 2.2 million ounces of gold.[14] Recent explorations by La Mancha suggest the presence of a further two million ounces of gold and more than half a million tons of copper.[15] In September 2010, La Mancha announced positive results from a preliminary economic assessment of the mine, creating the possibility of an increase in mining operations in the future.[16]

It is yet unclear what impact these new findings will have on the life of the Hassaï Mine, but previous statements from La Mancha suggest that it will remain operational in the near future.[17] It has been reported that due to these new developments La Mancha may increase its stake and take a controlling share of at least 51% in the Hassaï Mine.[18] As of November 2010, La Mancha has not announced plans to increase its holdings in the Hassaï Mine.[19]

The Hassaï Mine is staffed almost entirely by Sudanese, approximately half of whom are from the Beja tribe, a historically marginalized population in Sudan, while the rest are predominantly from Khartoum and Port Sudan. According to La Mancha's "Policy on Ongoing Operations and Investments in Sudan," several management positions in AMC are held by Beja people.[20]

In addition to the mine, La Mancha owns 25,000 square kilometers in the Arabian-Nubian Shield, a promising region for exploration and mining. The company also has explored the Tumluk prospect in area considered the southwestern extension of the Arabian-Nubian Shield, which appears to have many similarities with the successful Hassaï Mine.[21] Current activities in the area involve geophysical surveying and drilling.[22]

## POTENTIAL CONCERNS AND RISKS

### General potential for instability, violence, and need for security in more populated areas and as a result of government efforts to expand mining operations

While La Mancha's activities at the Hassaï Mine take place in a largely unpopulated area in the northeast where displacement, security risks, and other negative impacts on local communities are not of concern as they might be in other regions, its newer activities in the more populated Nuba Mountain area in Southern Kordofan might raise concerns.

Artisanal mining is an important source of income for some Sudanese, and fatal violence has broken out when the government has sought to remove miners from promising tracts allocated to foreign mining firms.[23] In 2010, at least five people died in clashes in northern Sudan's Gabgaba district after the Sudanese government awarded a Moroccan mining company exclusive rights to an area believed to be laden with gold.[24] This violence was not linked to La Mancha, but it is possible that future protests may occur in and around the company's holdings.

La Mancha has taken steps in the past that suggest it may seek to mitigate these kinds of concerns if they arise in the future. After engagement with CRN in 2007, it commissioned Foley Hoag LLP, a law firm with a corporate social responsibility practice that has done human rights monitoring around the world, to ensure its presence in the Hassaï Mine area is responsible and beneficial to local communities. Foley Hoag completed a desktop review of La Mancha's operations and policies, and also completed a site visit during which it assessed the company's operations at the Hassaï Mine and developed recommendations for improvement in standards and practices where necessary. La Mancha committed to take Foley Hoag's suggestions seriously and to review the relevant recommendations in its completed report.

### Revenue stream supporting government capacity for violence

In the event of South Sudan's secession, the Government of Sudan stands to lose 60% to 75% of its revenue. As part of a strategy to diversify its revenue stream, the government has placed an increased emphasis on its output of gold ore, hoping to double its annual production by 2012.[25] As Sudan's government seeks to increase its revenue from gold production, La Mancha might be tied to an increasingly significant revenue stream that facilitates the Sudanese government's capacity for violence, whether in the Darfur region or in a potential conflict with Sudan's south.

In the past, La Mancha has shown willingness to raise concerns about violence with the Sudanese government. In 2007, the company's president met with Sudan's Minister of Energy to express concern about the conflict in Darfur and to inform him of the company's public support for the full deployment of the United Nations—African Union hybrid peacekeeping force. In a "Policy on Ongoing Operations and Investment in Sudan" that La Mancha published in 2007, it stated that it has "adopted a pro-active approach of continuously assessing the impact and consequences of our presence in Sudan," and that in assessing the pertinence of continuing its operations it considers whether its presence contributes to the crisis in Darfur and whether its presence benefits the people of Sudan in general.[26]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Under the targeted Sudan divestment legislative model, companies that take "Substantial Action" are not considered "Scrutinized," or subject to divestment measures. La Mancha took a series of steps in October 2007 that qualified as "Substantial Action," which includes support for certain kinds of humanitarian initiatives.

The company committed to funding humanitarian efforts in Darfur,[27] and commissioned Foley Hoag LLP, a law firm with a corporate social responsibility practice that has done human rights monitoring around the world, to undertake an independent, third party evaluation and assessment of this and other commitments it made in a "Policy on Ongoing Operations in Sudan."[28]

The definition of "Substantial Action" also includes improving conditions for the genocidally victimized population in Darfur through engagement with the Government of Sudan. In 2007, La Mancha's president met with then Minister of Energy for Sudan, Dr. Awad Ahmed el Jaz, to express concern about the situation in Darfur and inform him of the company's public support for the full deployment of the United Nations—African Union hybrid peacekeeping force. At the same time, La Mancha committed publicly to not pursue new investments in Sudan until the government fully implemented all provisions contained in United Nations Security Council Resolution 1769, including the deployment of a peacekeeping force consistent with what was called for under the resolution.[29]

## ENGAGEMENT

CRN and La Mancha began dialogue in September 2007 regarding steps the company might take to be removed from scrutiny in CRN's Sudan Company Report and under the targeted Sudan divestment legislative model (see more detailed information above). La Mancha hosted a third party firm on site in Sudan to conduct a Human Rights Impact Assessment (HRIA) of its operations in May 2008. Most recently, CRN and La Mancha discussed the recommendations made in the third party firm's HRIA in October 2008.

Follow-up correspondence has been ongoing, and in February 2009 La Mancha provided a presentation to CRN on a potential Darfur-related humanitarian project it plans to undertake.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

La Mancha has developed a specific Policy on Ongoing Operations and Investment in Sudan that sets out the criteria for determining its course of action in the country. However, the policy does not reference human rights

### 2. Impact Assessments

La Mancha hosted a third party firm Foley Hoag on site in Sudan to conduct a Human Rights Impact Assessment (HRIA) of its operations in May 2008. Foley Hoag conducted a desktop review of La Mancha operations and policies, as well as a site visit to the Hassaï Mine, and developed recommendations for improvements in standards and practices where necessary.

### 3. Human Rights Integration

La Mancha met with CRN in October 2008 to discuss integrating the recommendations of the HRIA into its "Policy on Ongoing Operations in Sudan." However, the company does not appear to have a stand-alone human rights policy or other corporate responsibility framework that references internationally recognized human rights, and there is no information available on whether respect for such rights is integrated into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

La Mancha is not a VPSHR participant.

### UN Global Compact

La Mancha is not UNGC participant.

### EITI

La Mancha is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

# NOTES: LA MANCHA RESOURCES

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[28] See "Policy on Ongoing Operations and Investment in Sudan," La Mancha Resources website, at http://www.lamancha.ca/doc/en/Sudan%20Policy%20-%20v11-v2.pdf.

[29] La Mancha's commitment to refrain from new investment in Sudan refers to new investments beyond its existing contractual obligations as part of the Ariab Mining Company. Accordingly, recent news that La Mancha plans to allocate a significant portion of its 2008 budget to exploration in Sudan refers to exploration activities undertaken in the company's capacity as part of AMC. A press release on the company's website indicates that this exploration will be fully funded by cash flow from the Hassaï mine. Therefore, La Mancha does not consider its 2008 exploration in Sudan to constitute "expansion" for the purposes of its Sudan policy. Details on La Mancha's 2008 exploration plans are available at http://www.lamancha.ca/en/content/mancha-spend-106-million-exploration-2008.

COMPANY

# LAHMEYER INTERNATIONAL

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **GERMANY** | **POWER** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Hydroelectric projects have the potential to provide a much-needed increase in power production in Sudan, where only 22% of the population had access to electricity as recently as five years ago. Hydroelectricity has been the focus of Sudan's efforts to expand power production in recent years, and the recently completed Merowe Dam has alone doubled Sudan's power capacity. Dam building or expansion projects are underway at the Roseires and Kajbar Dams, and feasibility studies are underway for a number of additional projects.

Given the nature of hydroelectric projects, they also have the potential to exacerbate an important driver of conflict in Sudan: access to land. Dam projects can cause direct displacement at project sites (often of poor or already marginalized groups),[1] alter river flows, and damage downstream ecosystems, wetlands and farmlands, all of which can heighten tensions surrounding access to and use of land.[2] Land is a scarce resource over which disputes erupt frequently. Numerous factors—including growth in human and livestock populations, unhealthy livestock, arboricultural and farming techniques, desertification, and population displacements -increase competition for land in Sudan. The increasing scarcity of land has aggravated tensions between pastoralists and agriculturalists, which are heightened by an influx of arms. Projects that affect this dynamic have the potential to fuel tensions and even trigger conflicts.

Some projects also run the risk of heightening ethnic tensions, an important factor in many conflicts in Sudan. The lack of transparency around dam projects and the government's heavy-handed approach towards resettlement has given rise to a perception by some affected communities that projects are related to efforts to "Arabize" the regions around the dams. In some cases, these perceptions have led to increased militarization among affected peoples.[3]

In addition to affecting these dynamics, hydropower projects have at times been associated directly with violence against local communities.[4] Upcoming developments in Sudan may present additional challenges for companies involved in hydropower projects. It is widely predicted that South Sudan will secede from the north following a referendum on independence that is scheduled for January 9, 2011. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

The potential for fall-out from the referendum process holds significant implications for the private sector in Sudan, as areas affected by conflict differ significantly from stable operating environments. They exhibit instability, unpredictable conditions, and contexts in which rights violations are ongoing, presenting companies with greater challenges in ensuring they do not infringe on human rights. Not only is it more difficult for companies to do no harm in such settings, but the failure to adhere to standard corporate responsibility practices carries the potential for heightened impacts on communities and on companies themselves.

## Company

Lahmeyer International (Lahmeyer) provides engineering and consulting services for large infrastructure projects throughout the world. The company's first project in Sudan began in 1978. More recently, it has been a leading contractor on the Merowe dam project, which has been associated with forced displacement, human rights violations, and negative environmental impacts. As the company is not publicly traded, Lahmeyer does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Lahmeyer first entered Sudan in 1978, when it built the Burri 3 power station in Khartoum for Sudan's National Electricity Corporation (NEC).[5] Since then the company has won a number of major contracts from the NEC to design and engineer Sudan's power infrastructure, including a load distribution contract in 1982, engineering, design, and management contracts for the Blue Nile grid (1984), the Kilo-X Power Station in Khartoum (2002, 2004), Khartoum North Power Station (2005-2008), the Shereik hydropower project (2007), the Red Sea Power Plant project (2008 - 2010), the national load dispatch center modification project (2008 - 2010), and an environmental and social impact assessment for the Kenana and Rahad irrigation projects.[6] In September 2010, Lahmeyer signed another contract with the government's Dam Implementation Unit (DIU) for consulting services on the rehabilitation of the Khashm El-Girba Dam.[7]

Lahmeyer also has been the lead consultant engineer and contract supervisor on the Merowe dam project.[8] The dam, located on the fourth cataract of the Nile River, was financed by various Arab funds and overseen by Sudan's Dam Implementation Unit (DIU), an autonomous government entity headed by a presidentially appointed government official.[9] The company was awarded a series of related contracts for work on the project, including Orthophoto mapping (2000 - 2006),[10] a Nile Valley Irrigation project (2003 - 2007)[11], geomatics (2003 - 2009),[12] hydropower and hydraulic structure design (2000 - 2013)[13], as well as contract management and cost control (2000 - 2013).[14]

All ten turbines at the Merowe dam were operational by April 2010, adding the dam's full capacity to the national power grid.[15] Despite the dam's completion, Lahmeyer's activities at the Merowe dam site continue. The company is involved in hydraulic structure design and cost control contracts set to run until 2013.[16] In early 2009, Lahmeyer also reportedly signed a contract covering facility and plant management and operations, including the training of local engineers.[17] The duration of this contract is currently unclear.

In 2004, Lahmeyer won the design and management contract for the Garri Power Station Plant 4.[18] According to information from the NEC, construction was completed as expected in 2009.[19] The electricity produced from Lahmeyer's projects largely benefit Khartoum, its surrounding area and the city of Port Sudan, providing minimal benefit to Sudan's more marginalized citizens. This is especially true in the case of Garri Plant 4.[20] Each major oil pipeline in Sudan runs through Garri, suggesting that the power plant may have particular importance for Sudan's oil sector.[21]

In addition to the Merowe dam project and the Garri Power Station Plant 4, Lahmeyer is currently the consulting engineer on the Al Fula power plant project. Located in the western region of South Kordofan state, the Al Fula project consists of three 135 MW steam turbines and accessories, a 220 kV double circuit transmission line, and four 480 MAV substations.[22] Construction began on March 201023 and is expected to last 45 months, with an estimated completion date of August 2013.[24]

Lahmeyer's involvement in Sudan extends beyond the above-detailed projects. It is also preparing a feasibility study and international tender documents for the Shereik dam project in northern Sudan,[25] as well as a "major" Environmental and Social Impact Assessment for the Kenana and Rahad irrigation projects.[26]

## POTENTIAL CONCERNS AND RISKS

### Merowe dam project's impacts are ongoing and could exacerbate or generate instability and conflict

Though the Merowe dam project is completed, its impacts may play a lasting role in generating and exacerbating a risk of conflict in the region. Local communities—in particular the Manasir tribe—were opposed to the project from the beginning. Now displaced from their traditional waterline homelands and disconnected from their former livelihoods, they have largely rejected as inadequate the compensation and desert resettlement sites offered by the government.[27]

Protests over resettlement, compensation, and displacement have led to clashes in which civilians have been killed and arrested by security forces, and ongoing tensions remain a concern. The DIU, an autonomous government body overseeing the dam, is said to have its own army and security force and to operate outside regular government processes.[28] In 2003, DIU security forces fired on civilian protestors, wounding five. In April 2006, they fired upon local protestors, resulting in three deaths and at least fifty injuries, and in May 2009, protests over the dam led to clashes between resettled farmers and local police. The farmers reportedly lost their crops for a third time due to water shortages and protested by blocking a highway. Police countered with live ammunition, severely injuring at least one demonstrator.[29]

Affected communities reportedly are increasingly militant, with some younger Manasir joining the Sudan People's Liberation Army, hundreds of others heading to Eritrea for military training, and some joining an armed group in eastern Sudan. Also heightening the risk of future conflict is a sense among some communities that the Merowe project was part of a larger government effort to eradicate their culture and "Arabize" the region.[30]

The dam has displaced or otherwise affected at least 70,000 people.[31] Some of its other negative effects include potential for reduced river valley groundwater recharge, blockage of fish migrations, and damaged downstream agriculture. In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards projects and companies.

As part of its initial contract for the Merowe dam, Lahmeyer carried out an environmental and feasibility assessment, which does not appear to have been publicly released.[32] According to an independent review conducted by the Swiss Federal Institute of Aquatic Science and Technology, the assessment failed to conform to international standards, to Sudanese law, or to investigate serious problems which could threaten the environment and livelihood of downstream populations.[33]

Lahmeyer's operations at the Merowe dam have drawn the attention of European human rights organizations. On May 3, 2010, the European Center for Constitutional and Human Rights (ECCHR) filed a criminal complaint against Lahmeyer executives with the district attorney in Frankfurt, Germany.[34] In the complaint, the ECCHR charged that through flooding caused by the dam's construction, Lahmeyer destroyed the livelihood of residents and violated their rights to property, nutrition, and adequate housing. The district attorney's office has yet to decide whether to open an investigation into the complaint. If the district attorney allows the ECCHR complaint against Lahmeyer to proceed, it would be the first time a German firm is brought to trial for criminally neglecting economic and social human rights during a project in a developing country.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As of November 2010, Lahmeyer is not a publicly traded company, therefore it does not fall under the targeted Sudan divestment legislative model.

## ENGAGEMENT

In August 2007 CRN requested dialogue and further information from Lahmeyer regarding its Sudan-related operations. A representative from Lahmeyer replied with information related to the Merowe dam project, and suggested the company was open to meeting. A subsequent CRN inquiry regarding a possible meeting did not receive a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Lahmeyer has not published a human rights policy or referenced key human rights norms in its materials.

### 2. Impact Assessments

There is no information available on whether it is standard Lahmeyer policy to conduct human rights impact assessments for projects in which it takes part. Lahmeyer did conduct an environmental impact assessment for the Merowe dam project, but the assessment has been criticized for failing to meet international standards.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

Lahmeyer is not UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

# NOTES: LAHMEYER INTERNATIONAL

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COMPANY

# MAN SE

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **GERMANY** | **POWER AND OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**MAN DIESEL** (wholly owned subsidiary with Sudan-related operations)
**MAN B&W** (wholly owned subsidiary with Sudan-related operations)
**RENK AG** (majority owned, publicly traded subsidiary)
**MAN FINANCIAL SERVICE PLC** (majority owned subsidiary, bonds issued)

## CONTEXT OVERVIEW

### Industry

Power projects have the potential to provide a much-needed increase in the production of electricity in Sudan, where only 22% of the population had access to electricity as recently as five years ago.[1] Sudan's National Electricity Corporation (NEC), the government body responsible for the transmission and distribution of electricity in Sudan, states that it endeavors to connect the entire country to a stable electric network by 2030.[2] As of 2007, completed transmission lines primarily connect Khartoum and other major northern cities, leaving most of Sudan's marginalized populations excluded from the benefit of power production projects.[3]

Because the NEC—a subcomponent of Sudan's Ministry of Energy and Mining—is charged with supplying electrical power in Sudan, companies involved in power production projects most likely will be contracting directly with that government body or on government-commissioned projects.

Power projects are underway in dozens of locations, including some regions that have experienced instability in recent years, as well as those that may become increasingly insecure with the anticipated secession of southern Sudan in 2011.

While power production projects—with the exception of certain hydropower projects—are generally not associated with displacement, potential for insecurity, and other serious impacts linked with the extractive sector, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

Sudan's oil industry has also been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war.[4]

It is widely predicted that southern Sudan will secede from the north following a referendum on independence that is scheduled for January 9, 2011. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could trigger conflict between Sudan's north and south. An independent south would have significant implications for the Government of Sudan's access to a major source of revenue. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[5] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

German company Maschinenfabrik Augsburg-Nürnberg (MAN SE) is one of Europe's dominant manufacturers of commercial vehicles, engines, and mechanical engineering equipment.[6] MAN SE's affiliate companies have carried out projects in Sudan's power and oil sectors that constitute "Oil-Related" and "Power Production" activities as defined under the targeted Sudan divestment legislative model; however more information is required to determine if the company should be classified as "Scrutinized" under the model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

MAN SE's subsidiary, MAN Diesel, is the world's leading provider of large-bore diesel engines for marine and power plant applications[7] and has supplied numerous diesel engines to Sudan since the 1970s.[8] In 2001, it worked in conjunction with German firm Siemens AG on the Kilo-X power plant near Khartoum, for Sudan's state-owned National Electricity Corporation (NEC).[9]

In 2001, MAN Ferrostaal, a former subsidiary of MAN SE[10] and a global provider of industrial services, contracted with the NEC to disassemble, relocate, reassemble, and engineer a Khartoum-based power station. In 2003, it inspected and relocated three gas turbines from Thailand to Khartoum for a NEC-owned gas turbine power station.[11] MAN SE sold a 70% ownership stake in MAN Ferrostaal AG to the International Petroleum Investment Company in March 2009.[12] The company is now known as Ferrostaal AG.

In February 2005, MAN B&W (a brand of MAN Diesel)[13] contracted with the White Nile Petroleum Operating Company (WNPOC) for the delivery of a 45 megawatt (MW) turnkey power plant for the Thar Jath oil development project. The contract involved full-service work on the premises of WNPOC's central production facilities.[14] In 2007 it was confirmed that the plant had been delivered and that the contract was complete.[15]

In 2006, MAN Diesel was contracted to supply a number of generating sets destined for Sudan, including five for a power station for a crude oil fuel processing facility in Neem (Block 4).[16] This block is owned by Sudan's largest oil consortium, the Greater Nile Petroleum Operating Company (GNPOC).

MAN SE informed CRN in 2008 that the company had put in place a policy not to pursue or enter into any new contracts in the oil and energy industries in Sudan.[17] However, in November 2009, MAN Diesel announced plans to open a regional office in Sudan in 2010 as part of an effort to expand its presence in Africa.[18] MAN Diesel continues to provide some services, such as the delivery of spare parts, for its power projects in Sudan,[19] and given the company's focus on the energy and mining sectors, it is possible that the Sudan office would explore contracts in these areas. As of November 2010, MAN SE has yet to announce the opening of this Sudan office, and still conducts its operations through two separate agencies in Khartoum.[20]

There were past reports that GIAD Automotive, a Sudan-owned car and truck manufacturer sanctioned under U.S. laws for to its connections to the Sudanese military and Darfur genocide, held licenses to manufacture U.S. $100,000 heavy-duty trucks for MAN SE.[21]

According to MAN SE representatives, GIAD Automotive holds no license to manufacture MAN SE vehicles, and has only ever assembled non-military, commercial vehicles shipped to Sudan by MAN SE.[22] MAN SE reportedly has a policy of ensuring that such vehicles were not of military grade or for military use.[23]

A recent report by the UN Panel of Experts responsible for assessing violations of the 2005 UN arms embargo in Darfur found that a civilian model MAN SE truck, delivered by MAN to GIAD in April 2007, had been deployed for military use in Darfur. The truck (model L90/M2000), produced after the UN arms embargo, was found by the Panel in a modified and heavily militarized form, fitted with a four-barreled anti-aircraft gun.[24]

MAN SE confirmed the identity of the modified truck model and stated that the modifications on the vehicle were not authorized or communicated to MAN SE. The company also confirmed to the Panel that while GIAD Automotive had assembled past shipments of MAN SE products, it had not received any automobile products from MAN SE since April 2007, reportedly as a result of a policy adopted by MAN SE's board of directors.[25] In 2009, MAN SE reiterated that GIAD Automotive has no outstanding deliveries or pending orders for shipments of MAN SE vehicles.[26]

## POTENTIAL CONCERNS AND RISKS

### Potential for general instability and conflict around January 2011 referendum

While power production projects—with the exception of certain hydropower projects—are generally not associated with displacement, security concerns, and other serious impacts linked with the extractive sector, companies involved in them may face increasing challenges due to upcoming events in Sudan. It is widely predicted that southern Sudan will secede from the north following a referendum on independence that is scheduled for January 9, 2011. The vote is called for under the Comprehensive Peace Agreement (CPA), signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement. The CPA brought an end to 22 years of civil war between Sudan's north and south that had led to the deaths of two million Sudanese. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

MAN SE appears to have a limited presence on the ground in Sudan and limited business activities. To the extent it is active, however, it should be noted that the potential for fall-out from the referendum process holds significant implications for the private sector in Sudan. Areas affected by conflict differ significantly from stable operating environments. They exhibit instability, unpredictable conditions, and contexts in which rights violations are ongoing, presenting companies with greater challenges in ensuring they do not infringe on human rights. Not only is it more difficult for companies to do no harm in such settings, but the failure to adhere to standard corporate responsibility practices carries the potential for heightened impacts on communities and on companies themselves.

### Association with key revenue stream to Sudanese government

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war.[27] MAN SE's contracts with GNPOC tie it to a significant revenue stream; fields in one of the consortium's blocks are estimated to produce 37% of Sudan's oil.[28]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

MAN SE's activities are classified as "Power Production" and "Oil-Related" under the targeted model, however more information is required to determine if the company should be considered "Scrutinized" under the model.

It should be noted that not all of the projects undertaken in Sudan by MAN SE and its subsidiaries might potentially warrant "Scrutiny." For example, MAN Diesel's contracts in 2007 to supply diesel engines to power plants in the "Marginalized" areas of El Fasher, capital of North Darfur, and El Geneina, capital of West Darfur.[29]

## ENGAGEMENT

CRN sent an initial inquiry to MAN SE in October 2007, and spoke with the company in the fall of 2008 regarding the nature of the company's Sudan-related business.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

MAN SE does not have a stand-alone human rights policy, but mentions the Universal Declaration of Human Rights and select principles of the UN Global Compact. It requires its suppliers to respect internationally proclaimed human rights, the abolition of forced and child labor, and a responsible approach to the environment.[30]

### 2. Impact Assessments

No information is available on whether MAN SE has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

MAN SE is not a UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

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COMPANY

# MANAGEM

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **MOROCCO** | **MINING** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**SOCIETE METALLURGIQUE D'IMITER** (majority owned, publicly traded subsidiary)

**ONA S.A.** (majority shareholder, bonds issued)

## CONTEXT OVERVIEW

### Industry

Sudan is believed to have significant mineral resources, but it is not a significant mineral producer. The country's mining industry is relatively underdeveloped,[1] with mining and quarrying operations responsible for only 0.2% of the national GDP.[2]

This may change, given the northern government's increasing efforts to diversify its economy in advance of a January 2011 referendum on southern independence. It is widely predicted that southern Sudan will vote to secede from the north in 2011, a scenario which presents the north with the possibility of losing a great percentage of its most important source of revenue: oil. Southern Sudan holds an estimated 85% of the country's oil, which provides the north with 63% of its revenue and 15.5% of its GDP.[3]

As part of its efforts to diversify, the northern government plans to more than double its gold production to 50 metric tons annually in 2011.[4] This would increase the overall importance of gold as a revenue stream for the Sudanese government, which is said to funnel much of its income to the military, which has been connected directly to violent conflict in Darfur and a civil war between Sudan's north and south that resulted in two million deaths.[5] In addition to gold, Sudan is also reportedly rich in silver, lead, zinc, copper, iron, and barium. Sudan's Mining Minister stated in November 2010 that the country is experiencing "a rush" from foreign firms interested in gold exploration, including from Australia, Europe, and the United States, and that it had signed 45 agreements in 2010 and plans on signing 50 more in 2011.[6]

Unlike many of Sudan's oil-related projects, mining activities thus far have taken place primarily in largely unpopulated areas in the northeast and consequently are generally not associated with large scale displacement, security risks, and other negative impacts on local communities. Artisanal mining is an important source of income for some Sudanese, however, and fatal violence has broken out when the government has sought to remove miners from promising tracts allocated to foreign mining firms.[7] To achieve its ambitious increase in gold production, the government plans to tighten regulations on small-scale miners, and expand concessions to foreign mining companies, creating potential for increased tension and similar conflicts in the future.[8]

The "rush" to sign more mining agreements may lead to activities in areas other than Sudan's northeast—for example the Nuba mountains—meaning displacement, potential for insecurity, and other negative local impacts could be of concern. Sudan's Mining Minister announced recently that new concessions will be offered in 2011 in the Darfur region, an area that has been the site of targeted violence against civilians (identified as genocide by the U.S. government), the deaths of at least 200,000 since 2003, and ongoing clashes between armed groups and government forces.

### Company

Managem is Morocco's largest mining firm and is majority held by the Moroccan conglomerate Groupe ONA.[9] The company holds two gold mining concessions in relatively unpopulated areas in Sudan, and its exploration activities qualify it as "Scrutinized" under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In September 2008, Managem obtained gold mining concessions from Sudan's Ministry of Energy and Mining. The concession areas are located in the Wadi-Gigiya region of Red Sea State and the Al-Sharif area of River Nile State. According to its privately held parent company, Groupe ONA, Managem opened an office in Khartoum during 2009 to assist with its exploration work.[10] The company ultimately will spend up to U.S. $3 million setting up operations in Sudan.[11]

Though exploration reportedly began in September 2008, Managem has yet to announce any results as of November 2010.[12]

## POTENTIAL CONCERNS AND RISKS

### Potential for insecurity and violence due to tension between artisanal mining and government efforts to expand operations

While Managem's concessions are located in a largely unpopulated area in the northeast where displacement, security risks, and other negative impacts on local communities are of less concern than they might be in other regions, its mining activities—particularly if they expand—may raise concerns.

Artisanal mining is an important source of income for some Sudanese, and fatal violence has broken out when the government has sought to remove miners from promising tracts allocated to foreign mining firms.[13] In 2010, at least five people died in clashes in northern Sudan's Gabgaba district after the Sudanese government awarded a Moroccan mining company exclusive rights to an area believed to be laden with gold.[14] Reports did not name the firm, but its identification as Moroccan leads to concern that it may have been Managem.

### Revenue stream supporting government capacity for violence

In the event of South Sudan's secession, the Government of Sudan stands to lose 60% to 75% of its revenue. As part of a strategy to diversify its revenue stream, the government has placed an increased emphasis on its output of gold ore, hoping to double its annual production by 2012.[15] As Sudan's government seeks to increase its revenue from gold production, Managem might be tied to an increasingly significant revenue stream that facilitates the Sudanese government's capacity for violence, whether in the Darfur region or in a potential conflict with Sudan's south.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Managem's current exploration efforts are considered "Mineral Extraction Activities" under the targeted Sudan divestment legislative model, and the company is therefore classified as "Scrutinized."

## ENGAGEMENT

CRN has sent regular inquiries since 2009 requesting dialogue and further information regarding Managem's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Managem has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether Managem has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Managem is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

Managem is not a UNGC participant.

### EITI

Managem is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

# NOTES: MANAGEM

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COMPANY

# MERCATOR LINES LIMITED

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **INDIA** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**MERCATOR LINES SINGAPORE** (majority owned, publicly traded subsidiary)

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Mercator Lines Limited (Mercator) is an India–based shipping company that primarily transports crude oil within India and overseas. It was incorporated in 1983 and is the country's second largest private sector shipping company.[3]

The company began to ship Sudanese crude oil in March 2004. Mercator's purchases of Nile Blend crude are considered "Oil-Related Activities" under the targeted Sudan divestment legislative model, and the company is therefore classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Mercator began shipment of Sudanese crude oil in 2004, when it signed a U.S. $42 million contract to ship oil to Mangalore Refinery and Petrochemicals (MPRL), a subsidiary of India's state-owned Oil and Natural Gas Corporation (ONGC). Mercator's June 2009 newsletter reported that it was regularly engaged in the carriage of Sudanese crude to MRPL and Chinese ports.[4] As of November 2010, Mercator continues to list MRPL as a key client on its website.[5]

## POTENTIAL CONCERNS AND RISKS

### Revenue stream and transparency

Mercator does not have a presence on the ground in Sudan, so it is not associated directly with some of the industry's immediate risks and impacts such as displacement, kidnapping of workers, attacks on facilities, and environmental degradation. It is, however, associated with a revenue stream to the Sudanese government. Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[6] Mercator's purchases of Sudanese crude contributes to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), a 2005 accord that concluded 22 years of civil war between Sudan's north and south.[7] Transparency in revenue reporting—by companies and the government—has been identified as key to actualizing an agreement, in addition to being critical for reducing corruption, poverty, and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[8]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Mercator's purchases of Nile Blend crude are considered "Oil-Related Activities" under the targeted Sudan divestment legislative model, and the company is therefore classified as "Scrutinized."

## ENGAGEMENT

Beginning in 2007, CRN has sent regular inquiries requesting dialogue and further information regarding Mercator's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

While Mercator has indicated they are taking steps toward corporate social responsibility (CSR), it has not published either a formal CSR or human rights policy.[9]

### 2. Impact Assessments

No information is available on whether Mercator has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company principles.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

Mercator is not UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: MERCATOR LINES LIMITED

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COMPANY

# MOTT MACDONALD

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **UK** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SUBSTANTIAL ACTION (BUT PRIVATE)**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Mott MacDonald is a private, UK-based company that began operating in Sudan in 1957. Its recent activities have related primarily to the oil and power sectors, tying it to a key revenue stream for the Sudanese government. Mott MacDonald is a private company, and is therefore not subject to "Scrutiny" under the targeted Sudan divestment legislative model. Nevertheless, it has taken "Substantial Action," which would remove it from "Scrutiny" if it were to fall under the model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Mott MacDonald first began operating in Sudan in 1957, constructing irrigation and livestock watering systems and facilities for refugee camps.[3] More recently, much of its involvement in Sudan has been related to the oil and power sectors. Mott MacDonald participated in a now-completed 280 km pipeline project from the Melut Basin (blocks 3 and 7) to Khartoum. Additionally, it was involved in the construction of a 741 km pipeline connecting the Khartoum Refinery to Port Sudan, a project commissioned by Oil and Natural Gas Corporation of India (ONGC) and completed in August 2005.[4]

Mott MacDonald signed two additional oil-related contracts in Sudan in 2007. In August, the company announced it would design the U.S. $100 million processing facilities for the Moleeta field in Block 3, part of the Melut Basin project.[5] In September 2007, its website stated that it also was conducting preliminary environmental assessments for oil operations on the Red Sea, "focusing on socio-economic aspects and marine impacts."[6]

Mott MacDonald has participated in projects in Sudan's power sector as well, such as the 2x100 megawatt (MW) extension of the Khartoum North Power Station (also identified as the Al Shaheed Power Station), to provide additional power to Khartoum.[7] In February 2010, Mott MacDonald stated that though the project has been delayed it is in the commissioning stage and near completion.[8] Sudan's National Electricity Corporation (NEC) lists all aspects of the project as at least 90% complete.[9]

Mott MacDonald has informed CRN that the reasons for delay are beyond its control. Its role in the project is a supervisory one, and a contractor is responsible for completing the remaining work. The company also informed CRN that in addition to its contractual obligations, it would have safety concerns if it were to leave the project without adequate technical supervision.[10] The contractor expected completion by the end of August 2010; however it appears to still be unfinished as of November 2010.[11]

Beyond its work in these sectors, Mott MacDonald was contracted by the Department for International Development, UK, to conduct the secretariat of the Basic Services Fund, South Sudan. The project, which began in August 2006, is ongoing and is set to be completed in August 2010.[12] The Basic Services Fund for South Sudan seeks to fund basic services to the people of South Sudan, including access to water, sanitation, education, and health care.[13]

Mott MacDonald also was recently contracted by the Government of South Sudan as the lead agency to deliver the basic package of health services in Eastern Equatoria State. The three-year project began in early 2009. According to information from the company, the project's primary objective is to substantially improve the quality, accessibility, and sustainability of the basic preventive and curative health services in Eastern Equatoria State, while at the same time enhancing the capacity of local staff to efficiently plan and manage operations.[14]

In September 2009, Mott MacDonald was appointed to provide technical and advisory services on the EU funded Eastern Recovery and Development Program in Sudan. The purpose of the project is to improve livelihood security for the poor and vulnerable in Red Sea, Kassala and Gedarif states through the targeted provision of infrastructure and services; all of these states are located in the east of the country. This project has a capacity building component that strives to enhance the ability of local authorities and local implementing agencies in planning, managing, and coordinating public and donor investments in the targeted areas. Mott MacDonald's role is to provide effective and efficient management and implementation support for this project.[15]

Mott MacDonald currently provides environmental assessments in Sudan, and its website also mentions partnerships with development–oriented organizations including the International Development Association, the Arab Fund for Economic and Social Development, the United States Agency for International Development, and the United Nations High Commissioner for Refugees.[16]

## POTENTIAL CONCERNS AND RISKS

### Association with key revenue stream to Sudanese government

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and 22 years of civil war between Sudan's north and south.[17] In helping to design and construct facilities for Petrodar's blocks 3 and 7, Mott MacDonald has helped facilitate a key revenue stream to the Sudanese government. Petrodar's Melut Basin has some of the most productive fields in Sudan, with an output in 2009 between 230,000 and 270,000 barrels per day.[18] Such a revenue stream would be even more material to the Sudanese government in the case of southern secession, given that the north stands to lose 60% to 75% of its revenue in that scenario.

### Association with concession-related impacts

Mott MacDonald confirmed in April 2008 that it had completed or withdrawn from all oil-related projects in Sudan. However, its past oil-related activities may associate it with some of the industry's negative impacts. Oil projects in Sudan have affected the ability of local residents to access unpolluted water sources for personal and agricultural use. In the Petrodar area, roads built to service oil installations have shifted the direction of water flows, causing localized droughts and flooding.[19] In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards oil projects and companies.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Though Mott MacDonald is a private company, and is therefore not implicated under the targeted Sudan divestment legislative model, it is taking steps to withdraw from sectors in Sudan that are "Scrutinized" under the model. In December 2007, during conversation with CRN, the company stated its intention to withdraw from its oil contracts due to the imminent passage of the Sudan Divestment and Accountability Act (SADA), a federal law which now bars companies (absent a high–level waiver) from contracting with the U.S. federal government if they continue certain activities in the oil, mining, power, or defense sectors in Sudan (the same sectors covered under the targeted model).[20]

In April 2008, Mott MacDonald confirmed that it had completed or withdrawn from all oil-related projects in Sudan. The company also stated its intention to refrain from taking future oil-related contracts in Sudan or contracts relating to work in northern Sudan, though it will maintain its social development projects in South Sudan,[21] which will benefit the region's post-conflict reconstruction and rehabilitation efforts.

Mott MacDonald's power project work in Sudan appears to be winding down with the commissioning and near completion of the Khartoum North Power Station extension. Nevertheless, Mott MacDonald has taken steps to remove itself from "Scrutiny" for its "Power Production Activities." As an initial step in this process, the company undertook a Human Rights Impact Assessment for its involvement in the Khartoum North Power Station project, which has been shared with CRN.

Mott MacDonald is currently undertaking a "Substantial Action" project in the south of the country. In consultation with South Sudan's Ministry of Health, the company developed an action plan and committed to investing approximately £75,000 in the construction of the Torit Hospital Nursing School in Eastern Equatoria State. The project will provide an essential upgrade to nurse and community health worker training facilities, and the design and construction work will be managed by Mott MacDonald on a not-for-profit basis.[22] The project is in progress despite some delays due to the April 2010 national elections in Sudan. In May 2010, one of Mott MacDonald's Group Directors met with the Minister of Health to present its proposal and agree upon scheme designs and specifications.

### ENGAGEMENT

Dialogue has been ongoing since 2007, with regular follow-up regarding steps the company is taking to address stakeholder concerns and the implications of U.S. legislation. The company has been receptive to concerns about the role of the oil industry and certain types of power operations in Sudan, particularly with relation to the Darfur crisis. Mott MacDonald updated CRN in July and September 2009, and February and May 2010 regarding progress made in the implementation of its "Substantial Action" plans. CRN expects continued dialogue with Mott MacDonald regarding the completion of its power projects in Sudan and additional progress made in the implementation of its "Substantial Action" plans.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

In its Corporate Responsibility Report Mott MacDonald commits to the principles of SA8000, which is "based on the core international rights enshrined in the International Labour Organisation's conventions, the International Declaration of Human Rights and the United Nations Convention on the Rights of the Child." [23]

### 2. Impact Assessments

The company conducted a Human Rights Impact Assessment for its involvement in the Khartoum North Power Station project.

### 3. Human Rights Integration

The company was in the process of applying for formal SA8000 accreditation at the time of its 2008/09 CSR Report.

### 4. Human Rights Tracking and Reporting

SA8000 is associated with a global accreditation agency, Social Accountability Accreditation Services (SAAS) that certifies companies that comply with SA8000. CRN has no information on whether Mott MacDonald has been audited by SAAS.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Mott MacDonald is not a VPSHR participant.UN Global Compact

### EITI

Mott MacDonald is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns. However, the company website notes the board's strong leadership on its ethics policy.

# NOTES: MOTT MACDONALD

[1] Jeffrey Gettleman, "War in Sudan? Not Where the Oil Wealth Flows," New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

[2] "Sudan-Macroeconomic Policy," African Economic Outlook, August 3, 2010, at http://www.africaneconomicoutlook.org/en/countries/east-africa/sudan/#macro_economic_policy; Paul J. Sullivan and Natalie Nasrallah, "Improving Natural Resource Management in Sudan," p. 3, United States Institute of Peace, June 2010, at http://www.usip.org/resources/improving-natural-resource-management-in-sudan.

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[8] Email from Mott MacDonald to CRN, February 17, 2010.

[9] "Alshaheed (Khartoum North) Steam Power plant Extension project," National Electricity Corporation—Sudan website, at http://www.necsudan.com/en/projects_underconstruction3.php.

[10] Email from Mott MacDonald to CRN, May 25, 2010.

[11] Id.

[12] Email from Mott MacDonald to CRN, May 25, 2010.

[13] Email from Mott MacDonald to CRN, August 27, 2009.

[14] Id.

[15] Email and other communications between CRN and Mott MacDonald, September 2009.

[16] "Sudan," Mott MacDonald website, at http://www.mottmac.com/regions/?countryId=33271.

[17] Jeffrey Gettleman, "War in Sudan? Not Where the Oil Wealth Flows," New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

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[19] "Soil, Oil, and Human Rights:" p. 384, Human Rights Watch, November 2003, at http://www.hrw.org/sites/default/files/reports/sudanprint.pdf; "Oil Development in Upper Nile Sudan," p. 22, European Coalition on Oil in Sudan, at http://www.ecosonline.org/reports/2006/%5Eindex.html/ECOS%20Melut%20Report%20final%20-text%20only.pdf.html.

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[22] Email and other communication between CRN and Mott MacDonald, August 2009.

[23] Mott MacDonald Corporate Responsibility Report 2008/09," p. 16, Mott MacDonald website, 2009, at http://www.mottmac.com/newsandpublications/publicationsandbrochures/corporateresponsibility/.

COMPANY

# MTN GROUP

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **SOUTH AFRICA** | **TELECOMMUNICATIONS** | **PRIORITY ENGAGEMENT** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**MTN SUDAN** (majority owned subsidiary with Sudan-related business operations)

## CONTEXT OVERVIEW

### Industry

As of the first quarter of 2010, Sudan is home to 17.75 million cellular phone subscribers, with that number growing at a rate of 38% per year.[1] Facilitating this are almost 2,000 telecommunication sites creating network coverage for more than 85% of the population (35% geographically), up from 43% at the end of 2006.[2] In 2008, these users were sending an estimated 100-150 million short message service (SMS) messages per month.[3] This exploding market is serviced by a small number of mobile providers.

Sudan's young telecommunications sector has the potential to play a contributing role in building peace and stability. The availability of cell phones in Africa has been strongly correlated with increased information sharing, improved healthcare outcomes, promotion of literacy, and good governance.[4] Mobile technology is also playing an increasingly prominent role in election monitoring and the reporting of human rights abuses in areas that were formerly inaccessible. During the violence following Kenya's election in 2007, 45,000 cell phone users reported incidents of post-election violence, and their updates were mapped and disseminated in real time on a software platform accessible to the world.[5]

The telecommunications sector also has the potential to play a material role in Sudan's conflicts. In 2005, it was reported that state-owned telecommunications company Sudatel disabled its cell towers at the government's instruction in advance of government and militia attacks in Darfur, thereby interrupting service that would allow villagers to warn each other of impending violence.[6] There have not been reports of similar actions in Sudan since, but links between conflict and cell phone technology in other areas indicate a need for ongoing concern. In Nigeria and Mozambique, SMS technology was cited recently for its role in facilitating and coordinating outbreaks of violence.[7] There are also concerns about whether government entities monitor communication conducted through these services, and if they do, the extent to which information is misused with the awareness or complicity of companies.[8]

Though less directly connected to conflict, it has been noted that telecommunication companies pay significant licensing fees directly to the Sudanese government. According to a 2010 analysis by Deloitte LLP, mobile service providers paid an estimated 1.3 billion Sudanese pounds (SDG) (roughly U.S. $776 million) in taxes and fees between 2006 and 2008.[9] The bulk of these fees (64%) was attributed to the country's value-added tax.[10] Regulatory fees, which include annual license renewal, were estimated at approximately 7.5% of the overall tax and revenue generated by cellular network operators.[11] Between 2006 and 2008, these fees generated an estimated 123 million SDG (approximately U.S. $58 million) for the government. These numbers do not include the significant additional tax revenues generated by related businesses such as handset or airtime retailers. While taxes and fees contribute a not insignificant sum to the Sudanese government, they do not constitute a primary revenue source for the regime. Between 2006 and 2008, they amounted to less than 1% of the nearly U.S. $19 billion in revenue that the petroleum industry generated during that same period.[12] However, their significance might increase as the government looks to decrease its dependency on oil in advance of South Sudan's possible succession.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a referendum on independence that is scheduled for January 9, 2011. The vote is called for under the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement. The CPA brought an end to 22 years of civil war between Sudan's north and south that led to the deaths of two million Sudanese. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

The potential for fall-out from the referendum process holds significant implications for the private sector in Sudan. Areas affected by conflict differ significantly from stable operating environments. They exhibit instability, unpredictable conditions, and contexts in which rights violations are ongoing, presenting companies with greater challenges in ensuring they do not infringe on human rights. Not only is it more difficult for companies to do no harm in such settings, but the failure to adhere to standard corporate responsibility practices carries the potential for heightened impacts on communities and on companies themselves.

### Company

MTN Group, a South Africa-based company, is the majority owner (85%) of MTN Sudan Company (MTN Sudan), which launched operations in Sudan in September 2005. MTN Sudan's coverage is concentrated in eastern Sudan, with limited coverage throughout the rest of the country.[13] It does have network infrastructure in Nyala, a city whose inner limits and surrounding areas have been the scene of repeated assaults on humanitarian workers and peacekeepers and numerous military attacks.[14]

As a telecommunications firm, MTN Sudan does not have activities that meet the definition of "Scrutinized Business Operations" under the targeted Sudan divestment legislative model. Its activities also do not meet the model's definition of "Complicity" in the Darfur conflict, and the company is therefore not subject to its divestment measures.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

MTN Group currently has Sudan-related activities in the telecommunications sector, which it carries out through its subsidiary, MTN Sudan, in which it holds an 85% stake.[15] MTN Sudan launched operations in September 2005, when it was named Areeba Sudan and owned by the Bashair Telecom Company.[16] MTN Group purchased Bashair Telecom Company's parent, Investcom, in 2006, and rebranded Areeba Sudan as MTN Sudan.[17]

The bulk of MTN Sudan's coverage is concentrated in eastern Sudan, with limited coverage throughout the rest of the country.[18] It does have network infrastructure in Darfur, though this appears to be limited to a 75 square mile circle centered on South Darfur's capital, Nyala, which is also the location of MTN Sudan's sole service center in Darfur.[19]

Due to MTN Group's acquisition of Bashair Telecom Company, MTN Sudan operates under the original license granted to Bashair Telecom Company. This license, set to expire in 2020, was awarded for an initial fee of €150 million and an annual operating license fee of 2.5% of Bashair Telecom's net profits. In 2007, MTN Sudan reported 191 million South African Rand (ZAR) in profits after tax.[20] Under the licensing agreement, MTN Sudan's annual operating license fee would be equal to approximately 4.5 million ZAR (U.S. $677,304).[21] Given that MTN Sudan's revenue declined

57% between 2007 and 2008, it is likely that the revenue the company generated for the Sudanese government experienced a similar decline.[22]

Revenue declined in 2008 at least in part due to a new security and crime prevention regulation requiring telecommunication providers to disconnect prepaid mobile phone users who did not register their personal details. Ninety-five percent of users in Sudan are prepaid, and MTN Sudan had to disconnect 1.1 million subscribers in the second quarter of the year. Following that setback, MTN Sudan put effort into developing a more aggressive business and operational approach, particularly in Darfur and southern Sudan, where it is now active in over ten cities.[23] The company's subscriber base has grown consistently since, standing at over 2.66 million at the end of 2009[24] and representing a 28% market share.[25]

## POTENTIAL CONCERNS AND RISKS

### Potential for complicity in government repression and violence surrounding the January 2011 referendum period

Given recent history, there is potential for telecommunication sector complicity in violence in Sudan. An African Union military observer reported in 2005 that state-owned company Sudatel had disabled its subsidiary's cell towers in Darfur in advance of government and militia attacks, thereby interrupting service that would allow villagers to warn each other of impending violence.[26]

Incidents in other countries have raised additional concerns about ways in which the telecommunication sector's position might be exploited by the Sudanese government. In September 2010, the government in the Republic of Mozambique ordered its state-owned telecommunication company and a private mobile provider to disable text messaging, blaming SMS for the mobilization of protestors during riots in the capital.[27] The companies initially denied disabling SMS service before admitting to it, citing legal obligations and the government's justification of protecting national security, which some human rights groups have questioned.[28]

There is concern that these kinds of actions could take place in Sudan in the event conflict follows South Sudan's expected secession in January 2011. CRN is not aware of any reports that MTN Sudan, which has network infrastructure in areas already experiencing violence (Nyala, Darfur's inner limits, and surrounding areas have been the scene of repeated assaults on humanitarian workers and peacekeepers, and numerous military attacks), has been complicit in violence or government repression before.[29]

There is also concern that SMS and other cell phone technology might be used by state and non-state actors alike to facilitate violence in Sudan, as has been done in other conflict-affected areas. In Nigeria and Mozambique, the technology was cited recently for its role in facilitating and coordinating riots and fatal ethnic violence.[30]

Additionally, there are concerns about whether government entities monitor communication conducted through these services, and if they do, the extent to which information is misused with the awareness or complicity of companies.[31] Under a new regulation in Egypt, government controllers will monitor opposition movements' text messages, with funding for the monitoring coming from a 3% levy on telecommunication companies' SMS-generated revenues.[32] Following the recent protests in Mozambique, the government instituted requirements that personal details be registered for all non-contract cell phones users, a move that is widely seen as an effort to crack down on dissent. Citing security concerns, the Sudanese government implemented similar registration requirements in 2008, a move that led MTN to disconnect 1.1 million subscribers.[33]

### Revenue Stream

There are questions as to what significance telecommunication taxes and regulatory fees have as a source of revenue for the government. According to a 2010 analysis by Deloitte LLP, cellular network operators paid an estimated 1.3 billion Sudanese pounds (SDG) (roughly U.S. $776 million) in taxes and fees to the Sudanese government between 2006 and 2008.[34] The bulk of these fees (64%) were attributed to the country's value-added tax.[35] Regulatory fees, which include annual license renewal, were estimated at approximately 7.5% of the overall tax and revenue generated by cellular network operators.[36] Between 2006 and 2008, these fees generated an estimated 123 million SDG (approximately U.S. $58 million) for the government.

While these are not insignificant sums, they constitute a relatively small percentage of the government's overall revenue. This is particularly apparent in comparison to the revenue generated by the petroleum industry, which was estimated at nearly U.S. $19 billion between 2006 and 2008.[37] Taxes and fees that cellular network operators paid to the Sudanese government over the same period equaled just over 1% of that amount. Regulatory and licensing fees, a subset of that 1%, generated about the same amount as three average cargos of Sudanese crude oil.[38]

MTN Sudan and other MTN Group subsidiaries have been involved in initiatives that indicate they are aware of the positive opportunities their services present. It is possible they have assessed potential negative impacts as well. MTN Sudan participated in MTN Group's 1GOAL education awareness campaign in 2010, which allowed its entire subscriber network the opportunity to send a free SMS to be collected and delivered to governments ahead of a UN General Assembly meeting in September.[39] MTN Uganda, a neighboring MTN Group subsidiary, has partnered with telecommunication company Ericsson to pilot a program to reconnect separated refugee families, including some Sudanese, using a database created by phone calls and text messages.[40]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As telecommunications firms that are not involved in power production, mineral extraction, or the sale of arms, MTN Group and MTN Sudan do not have activities that meet the definition of "Scrutinized Business Operations" under the targeted Sudan divestment legislative model. They also do not appear to meet the model's definition of "Complicity" in the Darfur conflict, and are therefore not subject to its divestment measures.

## ENGAGEMENT

CRN initiated dialogue with MTN Group in October 2010, and is asking the company to take several steps to ensure it respects human rights and to consider actions that could further support peace and stability during the upcoming referendum process.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

MTN Group and MTN Sudan do not have a specific human rights policy. MTN Group does have a "CSR framework," but it is unclear whether it incorporates human rights principles, as it is not publicly available.

The MTN Group has stated a commitment to "positioning social, environmental and ethical considerations at the core" of its business. However, after making a MTN Group corporate social responsibility policy a goal for 2008, it stepped back from that, citing a diminished need for a formal policy due to the diverse regions and needs of its operations and the existence of a group CSR framework.[41]

### 2. Impact Assessments

No information is available on whether MTN Group or MTN Sudan has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

While MTN Nigeria, MTN Syria, and MTN Uganda are all UNGC participants, MTN Group and MTN Sudan are not.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement in human rights-related risks and concerns.

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COMPANY

# OIL AND NATURAL GAS CORPORATION LIMITED (ONGC)

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **INDIA** | **OIL** | **PRIORITY ENGAGEMENT** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**ONGC VIDESH LIMITED AKA OVL** (wholly owned subsidiary with Sudan-related operations, bonds issued)
**ONGC NILE GANGA BV, AMSTERDAM** (wholly owned subsidiary with Sudan-related operations)
**MANGALORE REFINERY AND PETROCHEMICALS LIMITED AKA MRPL** (majority owned, publicly traded subsidiary)

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Oil and Natural Gas Corporation Limited (ONGC) is majority owned by the Indian government. The company is extensively involved in Sudan's oil industry and potentially associated with numerous concerns about negative environmental and social impacts of exploration and production activities.

ONGC is involved in exploration, production, and other activities defined as "Oil-Related Activities" under the targeted Sudan divestment legislative model, and is classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

ONGC Videsh Limited (OVL), an ONGC subsidiary, acquired a 25% stake in the Greater Nile Petroleum Operating Company (GNPOC) from Canada's Talisman Energy Inc. for U.S. $720 million in March 2003.[3] GNPOC operates blocks 1, 2, and 4,[4] which currently produce between 180,000 and 200,000 barrels per day.[5]

OVL acquired stakes in two additional oil blocks in Sudan from Austria's OMV AG in May 2004: a 24.5% stake in Block 5A and a 23.5%, stake in Block 5B, cumulatively valued at U.S. $134.6 million.[6] The output of Block 5A's Thar Jath and Mala Fields is currently estimated at between 20,000 and 25,000 barrels per day.[7] In September 2010, it was reported that the output from the Thar Jath field is set to increase by 24,000 barrels per day.[8] This would potentially raise the total output of Block 5A to an estimated 44,000-49,000 barrels per day. Following several failed exploration efforts, OVL and its consortium partners relinquished their claim to Block 5B in 2009.[9] Ascom S.A., a Moldovan company, officially replaced the consortium in Block 5B by August 2009.[10]

While press reports link OVL with the potential acquisition of a 30% stake in the Block 8 concession held by Petronas,[11] this purchase has not been confirmed as of November 2010.

During his most recent visit to Sudan, India's petroleum minister lobbied on behalf of OVL for additional oil acreage in Sudan. It was reported that OVL was invited to view data for exploration acreage that the Government of Sudan will be offering in exploration licensing rounds in 2010.[12] The company is scheduled to make a presentation to the Sudanese government regarding the potential acquisition of equity stakes in four other Sudanese oil properties.[13]

In addition to its oil block stakes, OVL has been awarded several major oil-related contracts in Sudan. In 2004, the company won a contract to build a 741 km pipeline connecting the Khartoum refinery to Sudan's main export terminal in Port Sudan.[14] The pipeline was completed in August 2005 and has an 18,330 barrels per day capacity.[15] Reports arose in May 2009 that OVL invoked arbitration proceedings to settle claims against the Government of Sudan for defaults on its payments for the pipeline project.[16] The issue was raised by India's petroleum minister during a January 2010 visit to Sudan, and according to reports the Sudanese government will form a working group in 2010 to address the matter.[17] As of July 2010, ONGC's chairman stated that arbitration proceedings surrounding the payments had yet to resolve the dispute.[18]

ONGC also markets Nile Blend crude on the international market, typically selling 600,000 barrels per month.[19] Between August and October 2009, ONGC sold Nile Blend to the Mitsubishi Corporation[20] and Sinopec's subsidiary Unipec.[21] In 2010, ONGC has sold Nile Blend crude to CNPC subsidiary Chinaoil, as well as Arcadia Petroleum.[22] Mangalore Refinery and Petrochemicals Ltd (MRPL), an ONGC subsidiary, also is involved in the purchase of Nile Blend crude on the international spot market.[23]

ONGC may play a role in a proposed contract between the Government of Sudan and the India-based company BHEL for a 1,000 megawatt power project in Sudan. The estimated cost of this proposed project is U.S. $1 billion and the financing options being considered include a line of credit provided by the Indian government or payments in the form of either cash or crude oil. The reports indicate that BHEL plans to approach ONGC to facilitate the crude exchange. While at the time of the reports an ONCG had not been officially approached, an anonymous ONGC senior official confirmed that the company would be happy to assist BHEL in facilitating this arrangement.[24]

## POTENTIAL CONCERNS AND RISKS

### General potential for increasing instability and violence following anticipated southern secession in January 2011

There is a history of direct connections between the oil industry and conflict in Sudan. This is particularly true in the context of civil war between Sudan's north and south. It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence, and the oil industry and its infrastructure have been identified as assets over which the north and south are likely to battle. However, Sudan has assured Indian companies of "absolute security" in connection with their operations in the country.[25]

## Local instability in Abyei

There is concern that the Abyei region, in which ONGC's GNPOC concession is located, may be a focal point of renewed violence between north and south Sudan. A referendum on whether the Abyei region will fall in the north or the south in the case of secession is scheduled to be held alongside the south's referendum on independence. Residents of Abyei are set to vote on this question in January 2011, but the north and south disagree about whether the nomadic Arab Missiriya tribe should be allowed to vote. The Missiriya reside in the north but spend months each year grazing cattle in Abyei. The Government of Sudan takes the view that Missiriya should be included as Abyei voters, while South Sudan disagrees. The Missiriya, who fear southern secession and a new international boundary that would cost them their access to Abyei's land (and therefore their livelihood) have promised to use force to counter attempts to prevent them from voting. The head of the tribe stated in September 2010, "If they don't meet our demands then we will set everything alight. If that leads to war, then so be it."[26] The Misseriya are heavily armed, and analysts believe unresolved disputes with them or other communities could reignite civil war between Sudan's north and south.

Abyei already has been the site of fighting between the north's Sudan Armed Forces (SAF) and the south's Sudan People's Liberation Army (SPLA). In May 2008, clashes between the SAF and SPLA resulted in the destruction of Abyei town and the displacement of more than 60,000 residents.[27]

In addition to being the site of recent instability and conflict, the Abyei region, which is near the strategically important Heglig and Bamboo oil fields, is seated in a contested border area.[28] Though the Permanent Court of Arbitration (PCA) ruled in 2009 that the two fields, which account for more than a third of Sudan's revenue, lie outside of Abyei,[29] both northern and southern Sudan claim them as constituent parts of their regions. There is concern that disputes over borders in this area could turn violent absent clear agreements between the north and south.[30]

There also is concern that the Abyei referendum may be delayed, a step that the Sudan People's Liberation Movement (SPLM) sees as a harbinger of a wider referendum delay. In mid-October 2010, the ruling National Congress Party (NCP) stated that the Abyei referendum should be postponed, citing the difficulty of holding the Abyei vote and the southern referendum simultaneously.[31] Salva Kiir, president of the regional Government of South Sudan, stated in October 2010 that, "Delay or denial of the right of self-determination for the people of Southern Sudan and Abyei risks dangerous instability. There is without question a real risk of a return to violence on a massive scale if the referenda do not go ahead as scheduled."[32]

## Direct targeting of ONGC assets

As ONGC is a major force in Sudan's oil industry and closely linked to the Government of Sudan, its facilities and personnel are at risk of attack. While the company's employees have not been targeted by armed groups in the past, employees of its GNPOC consortium partners have been attacked. In October 2007, the Justice and Equality Movement (JEM), a Darfur rebel group, attacked Block 4, kidnapping and later releasing five employees of the HTC Yemen oil services firm.[33] After the kidnappings, JEM warned that it planned to continue targeting foreign oil firms, particularly Chinese companies.[34] JEM allegedly attacked Block 4 again in December 2007, although neither the Government of Sudan nor GNPOC confirmed the attack.[35] Several months later, an armed group kidnapped nine CNPC workers from the Heglig oil field in the GNPOC concession, and killed five of them.[36] The kidnappers said they wanted oil firms to leave Sudan "because they work with the government."[37]

## Impacts of exploration activities on local populations

Oil activities in southern Sudan have been associated with human rights abuses against populations living in concession areas, and there is a risk such abuses may be repeated, especially in the context of renewed conflict in Sudan. During the civil war fought between Sudan's north and south from 1983 to 2005, security forces associated with certain oil consortia were linked with numerous human rights violations, including forced displacement and violence against communities in project areas.

Concession areas currently under GNPOC control were the site of Sudanese government attacks on civilian populations during the civil war. These attacks are said to have been part of a strategy to clear areas for exploration. Government offensives around Block 1 displaced at least 50% of one county's inhabitants, with village clearings involving bombing attacks on civilians and ground attacks by SAF troops and local militias.[38] Exploration in the Block 5A concession, in which ONGC now holds a stake, was linked with the deaths of at least 12,000 people and the displacement of another 160,000 during Sudan's civil war.[39]

Harmful environmental impacts also are known to accompany some oil activities. As recently as November 2006, GNPOC consortium facilities were discharging untreated "produced water," which is extracted alongside crude oil.[40] Produced water is non-potable and cannot be used for human or plant consumption. It is unclear if this discharge of untreated waste water continues, but Unity State residents still believe that oilfields in the state are causing water pollution and sickness. GNPOC has responded to these concerns by stating that it has conducted tests that refute such claims and that GNPOC plants comply with international environmental standards.[41]

In both the GNPOC and Petrodar concession areas, oil exploration has affected local residents' ability to access unpolluted water sources for personal and agricultural use. Roads built to service oil installations have shifted the direction of water flows, causing localized droughts and flooding.[42]

ONGC's holdings in Block 5A may associate the company with further environmental and human-rights related risks and impacts. WNPOC's operations in Block 5A have been accused of contaminating the local water supply, affecting at least 300,000 people in Unity State, spreading disease to humans and cattle, and threatening the Sudd, the world's largest inland wetlands.[43] In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards oil projects and companies.

## Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[44] Due to ONGC's extensive operations in Sudan's oil industry, it is tied directly to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in the Darfur region or in a potential conflict with Sudan's south.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement.[45]

All of ONGC's producing concessions are in the south and rely on northern infrastructure for export. Associated revenue therefore likely would be subject to any revenue sharing agreement struck between the Government of Sudan and an independent south. Transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[46]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As ONGC has current exploration, production, and other activities that constitute "Oil-Related Activities" under the targeted Sudan divestment legislative model, it is classified as "Scrutinized" under that model.

The company has been affected by passage of targeted divestment measures across the United States. On June 30, 2009 the State of New York announced that it was divesting its retirement fund holdings from ONGC due to the company's failure to meet the state's risk mitigation program requirements.[47] Shortly thereafter, in January 2010, TIAA-CREF became the first large U.S. asset manager to announce divestment of its stake in ONGC, out of concern for human rights abuses in Sudan.[48] TIAA-CREF took this step after attempting "progressive dialogue."[49] The company expressed concern about this move but stated that it "will not impact our investment decision in Sudan."[50] ONGC's Chairman explained that "[o]ur operations area is away from any disturbed activity area. Secondly, we are very much conscious that we do not support suppressive activities. Any investor group withdrawing support causes pain and concern."[51]

## ENGAGEMENT

Beginning in 2007, CRN has repeatedly requested dialogues and information regarding ONGC's Sudan-related operations. In July 2007, ONGC provided information on its operations following a request under India's Right to Information Act. Most recently, CRN reached out to ONGC in October 2010 to discuss issues of security, revenue transparency and the upcoming referendum on southern independence scheduled for January 2011 as part of a CRN priority engagement effort. CRN has yet to receive a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

ONGC does not publish a stand alone human rights policy, but in the company's annual UNGC Communication on Progress (COP), it states that it is committed to aligning its operations with the ten universally accepted principles laid out by the UNGC, which includes respect for human rights. The company also acknowledges its responsibility to uphold human rights in the workplace and the company's sphere of influence. However, it appears that this relates primarily to labor rights and the rights of its employees and the COP does not detail efforts made by ONGC to mitigate any negative effects that its operations may have on human rights in its operation areas.

ONGC also states that it "is not at all complicit in human rights abuses," but does not detail what steps it takes to ensure it lacks complicity.[52]

### 2. Impact Assessments

ONGC conducts environmental and social impact assessments for its operations in India.[53] However, there is no information available detailing what efforts, if any, are made to conduct human rights impact assessments or environmental impact assessments for operations in Sudan.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

ONGC broadly follows the GRI requirements in its Corporate Social Responsibility report. However, the company does not include information detailing how its operations abide by the human rights-centric aspects of the GRI framework.[54] There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

ONGC is not a VPSHR participant, and its materials do not otherwise indicate support for its principles.

### UN Global Compact

ONGC has been a UNGC participant since September 2003.

### EITI

ONGC is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: OIL AND NATURAL GAS CORPORATION LIMITED (ONGC)

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COMPANY

# OIL INDIA LIMITED

| COUNTRY | SECTOR | CRN CLASSIFICATION |
| --- | --- | --- |
| **INDIA** | **OIL** | **PRIORITY ENGAGEMENT** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Oil India Limited (OIL) is India's second largest state-run oil explorer. It is majority owned by the government and has been listed on the National Stock Exchange of India since an Initial Public Offering (IPO) in September 2009.[3] The company specializes in the exploration, development, production, and transportation of crude oil and natural gas.[4] OIL currently holds an interest in the pipeline running from Khartoum to Port Sudan, which has helped facilitate a stream of revenue to the Sudanese government. Because OIL's pipeline and exploration activities are considered "Oil-Related Activities" under the targeted Sudan divestment legislative model and the company is classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

OIL holds a 10% "participating interest" in a 741 km oil pipeline construction project that runs from the refinery in Khartoum to Port Sudan. The pipeline was completed and handed over to the Government of Sudan in October 2005.[5] The other 90% of the participating interest is held by ONGC Videsh Limited (OVL), the wholly owned subsidiary of Oil and Natural Gas Corporation Limited (ONGC).[6] OIL appears to provide financing to OVL for the pipeline.[7]

According to a 2008 statement by OIL's Chairman, Jai Hind, the pipeline is generating revenue for the Government of Sudan, and OIL has received seven repayment installments from Sudan's Ministry of Energy and Mining.[8] May 2009 reports indicate that OVL invoked arbitration proceedings against the Government of Sudan to settle claims over defaults on payments for the project.[9] It is unclear how these claims may affect or involve OIL, but the issue was raised by India's petroleum minister on a January visit to Sudan, and press reports that indicate the Sudanese government will form a working group in 2010 to address the matter.[10]

OIL may have an interest in acquiring oil fields in Sudan. OIL's Managing Director N.M. Borah accompanied India's petroleum minister during his January 2010 visit to Sudan, which was reported as evidence of the company's interest in such opportunities. An August 2010 report stated that OIL had active exploration and production projects in Sudan, but it did not identify the location.[11]

OIL made a presentation to Sudan's oil ministry at October's Petrotech energy conference in New Delhi. Meanwhilte, Sudan is considering offering Indian oil firms equity stakes in four exploration blocks.[12]

## POTENTIAL CONCERNS AND RISKS

### General potential for increasing instability and violence following anticipated southern secession in January 2011

There is a history of direct connections between the oil industry and conflict in Sudan. This is particularly true in the context of civil war between Sudan's north and south. It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence, and that the oil industry and its infrastructure might be assets over which the north and south will battle.

The potential for fall-out from the referendum process holds significant implications for the private sector in Sudan. Areas affected by conflict differ significantly from stable operating environments. They exhibit instability, unpredictable conditions, and contexts in which rights violations are ongoing, presenting companies with greater challenges in ensuring they do not infringe on human rights. Not only is it more difficult for companies to do no harm in such settings, but the failure to adhere to standard corporate responsibility practices carries the potential for heightened impacts on communities and on companies themselves.

### Impacts of exploration activities on local populations

If OIL is involved in exploration activities as was reported in August 2010, its potential impacts are of concern. Oil activities in Sudan have been associated with human rights abuses against populations living in concession areas, and there is a risk such abuses may be repeated, especially in the context of renewed conflict in Sudan. During the civil war fought between Sudan's north and south from 1983 to 2005, security forces associated with certain oil consortia were linked with numerous human rights violations, including forced displacement and violence against communities in project areas.

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[13] OIL's role in Sudan's export pipeline tie it to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south. Such a stream would be even more material to the Sudanese government in the case of southern secession, given that the north stands to lose 60% to 75% of its revenue in that scenario.[14]

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement (SPLM).[15]

Transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty, and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[16]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

OIL's pipeline and reported exploration activities are considered "Oil-Related Activities" under the targeted Sudan divestment legislative model, and the company is therefore classified as "Scrutinized."

Though OIL is currently publicly traded, its Sudan-related activities arose as a concern during its IPO. The company initially planned to make an IPO in November 2008 in order to raise funds for exploration and development. Foreign banks advising OIL on its IPO, including HSBC, Citi, Morgan Stanley, and JM Financial Ltd., sought the company's assurance that it would not invest the capital in Sudan or Iran. An oil ministry official said the company was willing to make such an assurance in order to attract institutional investors from Western countries.[17] In September 2009, OIL launched an IPO that appears to have been managed by the same banks.[18] It is unclear whether the capital raised by the public offering was invested in Sudan or Iran.

## ENGAGEMENT

CRN sent inquiries requesting dialogue and further information on the company's Sudan-related operations in 2009. Company representatives replied in November 2009 that they would be willing to hold a discussion with CRN. However, CRN has not received a reply to follow up correspondence.

Most recently, CRN reached out to OIL in October 2010 to discuss issues of security, revenue and the upcoming referendum on southern independence scheduled for January 2011.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

While OIL does not have a human rights policy, it did claim in a progress report to the UN Global Compact to subscribe "to the protection of internationally proclaimed Human Rights."[19]

### 2. Impact Assessments

While OIL has conducted environmental impact assessments in other countries there is no information available on whether it has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

OIL is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

In February 2010, OIL was delisted from the UNGC for failure to submit an annual Communication on Progress, a UN Global Compact requirement for participation.[20]

### EITI

OIL is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: OIL INDIA LIMITED

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COMPANY

# PETROFAC

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **UK** | **OIL** | **PRIORITY ENGAGEMENT** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SUBSTANTIAL ACTION**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Petrofac is an international oil and gas facilities service provider. It has been involved in Sudan's oil industry since 2001, when it contracted with the Greater Nile Petroleum Operating Company (GNPOC), Sudan's largest oil consortium, which has in the past been associated with human rights abuses. Petrofac has taken steps that constitute "Substantial Action" under the targeted Sudan divestment legislative model, and is therefore not classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In 2001, Petrofac undertook an engineering, procurement, and construction (EPC) contract with GNPOC, which included designing and building production facilities and flowlines for the Munga field in Block 1.[3]

Petrofac completed the contract in 2002, and received another EPC contract from GNPOC, this time to build flowlines and a field production facility (FPF) for the Diffra field in Block 4. This was Sudan's first gas-associated FPF project and was completed in May 2004.[4]

In 2004, Petrofac Facilities Management International was awarded a U.S. $40 million machinery management contract by GNPOC for its Heglig and Unity power plants and oil pipeline pumping facilities. It included management of machinery maintenance, the overhaul of two power plants, six pipeline pumping stations, and additional associated equipment.[5]

This contract was originally slated to expire in April 2009, but was extended until April 2010.[6] Negotiations between Petrofac and GNPOC for a new contract with a revised scope of work (which will exclude the Heglig and Unity power plants) were ongoing in May 2010.[7] The new contract will have an expected duration of "3+1 years."[8]

Petrofac informed CRN in July 2007 that it had received a U.S. $840,000 contract from the White Nile Petroleum Operating Company (WNPOC) for maintenance and services on the consortium's data processing software. The contract was completed in September 2008.

In January 2010, Petrofac purchased the Scotland-based mechanical services company Scotvalve.[9] Scotvalve is a minority partner (22.5%) in a joint venture with a Sudanese company called NAPESCO. As a consequence of this purchase, Petrofac provides limited technical and management support and materials on a remote and ad hoc basis to NAPESCO's main client, GNPOC. Petrofac informed CRN that its contract with NAPESCO allows it the option to divest its interest before 2012.[10]

## POTENTIAL CONCERNS AND RISKS

### Local instability in Abyei

There is concern that the Abyei region, in which Petrofac's client, GNPOC is located, may be a focal point of renewed violence between north and south Sudan. A referendum on whether the Abyei region will fall in the north or the south in the case of secession is scheduled to be held alongside the south's referendum on independence. Residents of Abyei are set to vote on this question in January 2011, but the north and south disagree about whether the nomadic Arab Missiriya tribe should be allowed to participate in that plebiscite. While the north claims the Missiriya, who spend several months each year grazing cattle in Abyei, should be included, the south claims they should not. The Missiriya, who fear southern secession and a new international boundary would cost them their access to Abyei's land (and therefore their livelihood), have promised to use force against any who attempt to prevent them from voting. The head of the tribe stated in September 2010, "If they don't meet our demands then we will set everything alight. If that leads to war then so be it."[11] The Misseriya are heavily armed, and analysts believe unresolved disputes with them or other communities could reignite civil war between Sudan's north and south.

Abyei has already been the site of fighting between the north's Sudan Armed Forces (SAF) and the south's Sudan People's Liberation Army (SPLA). In May 2008, clashes between the SAF and SPLA resulted in the destruction of Abyei town and the displacement of more than 60,000 residents.[12]

In addition to being the site of recent instability and conflict, the Abyei region, which is near the strategically important Heglig and Bamboo fields, is seated in a contested border area.[13] Though the Permanent Court of Arbitration (PCA) ruled in 2009 that the two fields, which account for more than a third of Sudan's revenue, lie outside of Abyei,[14] both northern and southern Sudan claim them as constituent parts of their regions. There is concern that disputes over borders in this area could turn violent without clear agreements between the north and south.[15]

There is also concern that the Abyei referendum may be delayed, a step that the Sudan People's Liberation Movement (SPLM) sees as a harbinger of a wider referendum delay. In mid-October 2010, the ruling National Congress Party (NCP) stated that the Abyei referendum should be postponed, citing the difficulty of holding the Abyei vote and the southern referendum simultaneously.[16] Salva Kiir, president of the regional Government of South Sudan, stated in October 2010, that "Delay or denial of the right of self-determination for the people of Southern Sudan and Abyei risks dangerous instability. There is without question a real risk of a return to violence on a massive scale if the referenda do not go ahead as scheduled."[17]

### General potential for increasing instability and violence following anticipated southern secession in January 2011

There is a history of direct connections between the oil industry and conflict in Sudan. This is particularly true in the context of civil war between Sudan's north and south. It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence, the oil industry and its infrastructure have been identified as assets over which the north and south are likely to battle.

Petrofac relies on its client, GNPOC, for the provision of security while on GNPOC facilities, but not while travelling and in Khartoum.[18] A Petrofac representative said the company abides by a multi-level security analysis process that uses a combination of risk mitigation strategies (such as restrictions on movement at certain times or through certain areas) and security updates provided by the British Embassy and the risk consultancy firm Control Risks, among others.[19] Control Risks' assessments are based on on-the-ground monitoring, site visits to oil consortia, and communications with local communities and non-governmental organizations, governments and consortia officials.

### Potential association with impacts of oil activities on local populations

Oil activities in Sudan have been associated with human rights abuses against populations living in concession areas, and there is a risk such abuses may be repeated, especially in the context of renewed conflict in Sudan. GNPOC has been accused of involvement in human rights abuses committed in its concession areas. Human Rights Watch alleged that the government forcibly displaced civilians, and the Coalition for International Justice alleges that GNPOC allowed the Sudanese military to use consortium infrastructure during the north–south civil war.[20] GNPOC also is reported to have hired Sudanese-government linked militias to provide oil block security.[21]

Environmental impacts also are known to accompany some oil activities. As recently as November 2006, GNPOC consortium facilities were discharging untreated "produced water," which is extracted alongside crude oil.[22] Produced water is non-potable and cannot be used for human or plant consumption. It is unclear if this discharge of untreated waste water continues, but Unity State residents still believe that oilfields in the state are causing water pollution and sickness. GNPOC has responded to these concerns by stating that it has conducted tests that refute such claims and that GNPOC plants comply with international environmental standards.[23] In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards oil projects and companies.

### Association with key revenue stream to Sudanese government

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[24] GNPOC's Block 2, for which Petrofac has conducted work, is estimated to produce 37% of Sudan's oil.[25] Due to Petrofac's operations in Sudan's oil industry, the company is tied to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in the Darfur region or in a potential conflict with Sudan's south.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

In May 2008, Petrofac finalized a plan for taking "Substantial Action," which would remove it from "Scrutiny" under the targeted Sudan divestment legislative model. "Substantial Action" includes implementing a humanitarian program that is substantial in size and scope in relation to the company's Sudan operations, that benefits one or more of Sudan's marginalized populations, that is undertaken in conjunction with a reputable local or international NGO and/or governmental agency, and that is certified by an independent third party to meet these requirements.

Petrofac has partnered with BRAC, a Bangladesh-based development organization that combines micro-finance programs with associated health, education, and other social initiatives designed to foster community development.[26] Petrofac agreed to fund the first two years of BRAC's four-year pilot education program in southern Sudan, with the option to extend the funding. The pilot involves funding 60 one-room primary schools whose students will come from marginalized areas of southern Sudan.[27] BRAC seeks particularly to provide education to children, with a particular focus on young girls, who do not have the opportunity to attend school. The project's overall objective intends to support the Government of Sudan's efforts to achieve universal primary education.

The BRAC project is well underway. BRAC has confirmed that it has met all its targets for the first two years of the pilot. Petrofac has provided information to CRN regarding BRAC'S output and outcomes for this project. The 60 schools Petrofac committed to fund are now in operation in Juba and Torit, providing primary education to 1,800 children, 65% of whom are girls.[28]

Under a memorandum of understanding, the entire project is being conducted in collaboration with the Ministry of Education. Community consultation has been a part of the process as well. Petrofac and BRAC have reported that government officials from both northern and southern Sudan have expressed support for the initiative.[29]

Petrofac hired McGrigors Rights, the international human rights consultancy operation of UK law firm McGrigors LLP, to provide third party verification for its participation in the BRAC initiative. In consultation with CRN, McGrigors has certified that the project, given its size and nature, is "substantial" in relation to the size and scope of Petrofac's operations in Sudan. Based on extensive consultation with Petrofac and BRAC in the planning stages of the project, McGrigors also is satisfied that the project meets the other two requirements of "Substantial Action"—the project is intended to benefit one or more marginalized populations in southern Sudan, and BRAC is a highly-regarded international NGO.

In order to fully verify that these requirements are met, Petrofac intends to organize an on-site visit by an independent third party at an appropriate stage in the project. CRN has not obtained information regarding the onsite visit, but BRAC is in the process of arranging this third party consultancy.[30] BRAC UK, however, has made regular visits to southern Sudan. It was to visit the area in June 2010 and to provide a detailed report on progress between 2008 and 2010.[31] BRAC has provided Petrofac with quarterly updates on the progress of the schools and its students so far, and has been willing to share these with CRN.

Petrofac told CRN it is also considering actions that could be taken in the event it decides to leave Sudan. These include conducting two independent third party assessments by Sudanese NGOs to assess the amount of funding required to sustain the schools, and helping BRAC to seek alternative forms of funding. Initial contact has been made with a local foundation in Sudan, Britain's DIFID, and Dutch donor organizations.[32]

In addition to its humanitarian program, Petrofac has discussed its political and humanitarian concerns with Government of Sudan officials. While Petrofac acknowledges a limited ability to influence Sudanese government policy, as a subcontractor with a limited on-the-ground presence, the company has expressed a willingness to seek opportunities for collaborative engagement with other companies to address the broader situation in Sudan. Engagement with the Government of Sudan is an aspect of "Substantial Action" under the targeted Sudan divestment legislative model.

## ENGAGEMENT

CRN dialogue with Petrofac has been ongoing since 2007, and discussions have included the matter of the company's Sudan-related operations and steps it might take to address stakeholder concerns and the implications of U.S. legislation. In February and May 2010 the company provided CRN information on its security-related arrangements in Sudan and its participation in a March 2010 UN Global Compact event in Khartoum.

Most recently, CRN reached out to Petrofac in October 2010 to discuss issues of security, revenue transparency and the upcoming referendum on southern independence scheduled for January 2011 as part of a CRN priority engagement effort.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Petrofac does not have a standalone human rights policy, but includes reference to human rights training in its corporate social responsibility policy.[33] The policy does not provide any further details nor make reference to any international instruments such as the Universal Declaration of Human Rights.

### 2. Impact Assessments

Petrofac has conducted a full human rights impact assessment of its Substantial Action projects in Sudan in conjunction with McGrigors Rights, and has addressed the findings of the assessment. Petrofac informed CRN in February 2010 that as a result of the human rights impact assessment, it is updating its occupational health standards to address HIV/AIDS issues.[34]

### 3. Human Rights Integration

Petrofac has made reference to human rights training in its CSR report, however it has provided no information on the material covered in the training.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Petrofac is not a VPSHR participant.

### UN Global Compact

Petrofac has been a UNGC participant since January 23, 2009. The company attended the March 2010 meeting in Khartoum hosted by the UN Principles for Responsible Investment (PRI), the UN Global Compact and the Global Compact Sudan Network. The meeting centered on the question of the role of the private sector in contributing to peace and development in Sudan, and sought to create a common understanding of what constitutes responsible business practice in Sudan.[35]

### EITI

Petrofac is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: PETROFAC

1 Jeffrey Gettleman, "War in Sudan? Not Where the Oil Wealth Flows," New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

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[24] Jeffrey Gettleman, "War in Sudan? Not Where the Oil Wealth Flows," New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

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[26] "Vision," BRAC website, at http://www.brac.net/about.htm.

[27] BRAC pioneered its "non-formal primary education programme" in 1985 in Bangladesh, and has had much success with the initiative. See "Education," BRAC website, at http://www.brac.net/education.htm.

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COMPANY

# PETROLIAM NASIONAL BERHAD (PETRONAS)

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **MALAYSIA** | **OIL** | **PRIORITY ENGAGEMENT** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**PETRONAS CARIGALI NILE** (wholly owned subsidiary with Sudan-related operations)
**PETRONAS MARKETING SUDAN Ltd.** (wholly owned subsidiary with Sudan-related operations)
**OGP TECHNICAL SERVICES** (wholly owned subsidiary with Sudan-related operations)
**PETRONAS GAS BHD.** (majority owned, publicly traded subsidiary)
**PETRONAS DAGANGAN BHD** (majority owned, publicly traded subsidiary)
**PETRONAS CAPITAL LTD.** (wholly owned subsidiary, bonds issued)
**MISC CAPITAL LTD.** (majority owned subsidiary, bonds issued)
**MALAYSIA INTERNATIONAL SHIPPING COMPANY AKA MISC BHD** (majority owned, publicly traded subsidiary, bonds issued)
**MIDCITI RESOURCES SDN BHD** (majority owned subsidiary, bonds issued)
**KLCC PROPERTY HOLDINGS BHD** (majority owned, publicly traded subsidiary, bonds issued)
**GAS DISTRICT COOLING PUTRAJAYA SDN BHD** (wholly owned subsidiary, bonds issued)

## CONTEXT OVERVIEW

### Industry

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In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oil fields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

## Company

Petroliam Nasional Berhad (Petronas) is Malaysia's state-owned oil company. Petronas is a major player in Sudan's oil industry, with operating stakes in multiple producing and exploratory oil concessions, and subsidiaries involved in the construction of critical oil infrastructure.[3] The company's extensive involvement in Sudan's oil industry leads to potential association with numerous concerns, including environmental and social impacts linked to exploration and production activities and insecurity in concession areas.

As Petronas is currently involved in exploration, production, and other activities defined as "Oil-Related Activities" under the targeted Sudan divestment legislative model, it is classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Petronas first entered Sudan in December 1996, when it acquired a 30% stake in the Greater Nile Petroleum Operating Company (GNPOC) through its wholly owned subsidiary Petronas Carigali Nile Ltd.[4] GNPOC operates the oil-producing blocks 1, 2, and 4,[5] which produce an estimated 180,000 to 200,000 barrels of Nile Blend crude oil per day.[6]

In February 1997, Petronas won a 28.5% stake in the White Nile Petroleum Operating Company (WNPOC), which operates Block 5A. When Sweden-based Lundin Petroleum (Lundin) sold its interest in 2003, Petronas increased its stake to 68.%.[7] The output of Block 5A's Thar Jath and Mala Fields is currently estimated at between 20,000 and 25,000 barrels per day.[8] In September 2010, it was reported that the output from the Thar Jath field is set to increase by 24,000 barrels per day.[9] This would potentially raise the total output of Block 5A to an estimated 44,000-49,000 barrels per day.

Reports from late 2009 suggest Petronas intends to offload its stake in Block 5A through an oil block swap with the state-owned China National Petroleum Corporation (CNPC).[10] This proposed swap would exchange an undisclosed percentage of CNPC's 95% stake in Block 6 for Petronas' entire stake in Block 5A.[11] As of November 2010, no date for the swap has been announced. However, both companies have hired consultants to assess the oil prospects for these blocks in order to execute the proposed swap.[12]

In November 2000, the Sudanese government awarded blocks 3 and 7, located in the Melut Basin, to the Petrodar Operating Company Ltd. (Petrodar).[13] Petronas has been a part of the Petrodar consortium since its incorporation and holds a 40% stake.[14] Blocks 3 and 7 currently produce nearly 300,000 barrels of Dar Blend crude per day.[15]

In May 2001, Petronas acquired a 41% operating stake in Block 5B.[16] Reports indicate that the company and its consortium partners, Lundin and India's ONGC Videsh Ltd. (OVL), relinquished their claims to the block following several failed exploration efforts.[17] Ascom S.A., a Moldovan company, officially replaced the consortium in Block 5B in August 2009.[18]

Petronas acquired a 77% stake in the WNPOC consortium, which operates Block 8 in 2003.[19] The Block 8 concession area is currently under exploration. In June 2009, WNPOC announced that it had found dry, non-associated natural gas in two wells, a find that has the potential to produce between 16 and 20 trillion cubic feet of natural gas within three years.[20]

In August 2005, Petronas acquired a 35% stake in the Red Sea Petroleum Operating Company (RSPOC), which operates Block 15 off the shore of Red Sea state.[21] A 25-year contract governing Block 15 provides for a six-year exploration period, which appears to still be underway.[22] So far, exploration in Block 15 has resulted in the drilling of one dry well.[23]

In addition to its exploration and production operations and the other activities mentioned above, Petronas is associated with infrastructure and downstream oil projects in Sudan. In August 2005, Petronas gained a 50% stake alongside the Sudanese Ministry of Energy and Mining in the planned Port Sudan Refinery project.[24] Initially scheduled for completion by 2009, soaring costs forced the indefinite postponement of the project.[25]

In July 2008, it was reported that Petronas, along with CNPC, would replace the Vitol Group as the main marketers of Dar Blend crude oil. Petronas and CNPC now reportedly market Dar Blend in alternate months, with each company selling three to four cargoes a month.[26] As of November 2010, the company has sold at least 3.6 million barrels of Dar Blend.[27] Petronas also purchases cargos of Dar Blend on the spot market, including 600,000 barrels for July 2010 delivery.[28]

The company's involvement in Sudan has also included capacity-building programs for the wider Sudanese oil industry. In 1997, Petronas signed an Agreement of Cooperation and Technical Assistance with Sudan's Ministry of Energy and Mining, which, according to a company press release, "covers the cooperation on upstream and downstream studies, the development of training programmes and the establishment of a training centre and laboratory facilities for the Ministry as well as the enhancement of Sudanese capabilities in managing its petroleum operations."[29]

A number of Petronas' subsidiaries have secured projects in Sudan. OGP Technical Services Sdn Bhd (OGP), a wholly owned subsidiary of Petronas, has had extensive operations related to Sudan's oil industry.[30] OGP entered Sudan in 1996 when it was awarded the management and consultancy contract for Sudan's main export pipeline, connecting GNPOC's oilfields to Port Sudan. The pipeline, completed in 1999, facilitated the first oil exports from Sudan.[31] Subsequently, OGP completed a number of projects that facilitated oil production in Sudan. These projects included management and consultancy contracts for Petrodar and GNPOC, engineering and project management for WNPOC and an operations and maintenance contract on the Marsha Bashayer Marine Terminal for GNPOC.[32] It is unclear whether OGP continues to bid for work in Sudan.

Petronas' majority–owned and publicly traded subsidiary, Malaysia International Shipping Company (MISC Berhad), entered into a local joint venture in 2005 with Sudan–based KEER Trans to provide shipping logistics for Sudan's petroleum industry and specifically for Petronas.[33]

## POTENTIAL CONCERNS AND RISKS

### General potential for increasing instability and violence following anticipated southern secession in January 2011

There is a history of direct connections between the oil industry and conflict in Sudan. This is particularly true in the context of civil war between Sudan's northern and southern. It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence, and the oil industry and its infrastructure have been identified as assets over which the north and south are likely to battle.

### Local instability in Abyei

There is concern that the Abyei region, in which Petronas' GNPOC concession is located, may be a focal point of renewed violence between northern and southern Sudan. A referendum on whether the Abyei region will fall in the north or the south in the case of secession is scheduled to be held alongside the south's referendum on independence. Residents of Abyei are set to vote on this question in January 2011, but the north and south disagree about whether the nomadic Arab Missiriya tribe should be allowed to participate in that plebiscite. While the north claims the Missiriya, who spend months each year grazing cattle in Abyei, should be included, the south says they should not. The Missiriya, who fear southern secession and a new international boundary would cost them their access to Abyei's land (and therefore their livelihood), have promised to use force against any who attempt to prevent them from voting. The head of the tribe stated in September 2010, "If they don't meet our demands then we will set everything alight. If that leads to war then so be it."[34] The Misseriya are heavily armed, and analysts believe unresolved disputes with them or other communities could reignite civil war between Sudan's north and south.

Abyei has already been the site of fighting between the north's Sudan Armed Forces (SAF) and the south's

Sudan People's Liberation Army (SPLA). In May 2008, clashes between the SAF and SPLA resulted in the destruction of Abyei town and the displacement of more than 60,000 residents.[35]

In addition to being the site of recent instability and conflict, the Abyei region, which is near the strategically important Heglig and Bamboo fields, is seated in a contested border area.[36] Though the Permanent Court of Arbitration (PCA) ruled in 2009 that the two fields, which account for more than a third of Sudan's revenue, lie outside of Abyei,[37] both northern and southern Sudan claim them as constituent parts of their regions. There is concern that disputes over borders in this area could turn violent absent clear agreements between the north and south.[38]

There is also concern that the Abyei referendum may be delayed, a step that the Sudan People's Liberation Movement (SPLM) sees as a harbinger of a wider referendum delay. In mid-October 2010, the ruling National Congress Party (NCP) stated that the Abyei referendum should be postponed, citing the difficulty of holding the Abyei vote and the southern referendum simultaneously.[39] Salva Kiir, president of the regional Government of South Sudan, stated in October 2010 that "Delay or denial of the right of self-determination for the people of Southern Sudan and Abyei risks dangerous instability. There is without question a real risk of a return to violence on a massive scale if the referenda do not go ahead as scheduled."[40]

## Direct targeting of Petronas assets

As Petronas is a major force in Sudan's oil industry and closely linked to the Government of Sudan, its facilities and personnel are at risk of attack. While the company's employees have not been targeted by armed groups in the past, its GNPOC consortium partners' employees have. In October 2007, the Justice and Equality Movement (JEM), a Darfur rebel group, attacked Block 4, kidnapping and later releasing five employees of the HTC Yemen oil services firm.[41] After the kidnappings, JEM warned that it planned to continue targeting foreign oil firms.[42] JEM allegedly attacked Block 4 again in December 2007, although neither the Government of Sudan nor GNPOC confirmed the attack.[43] Several months later, an armed group kidnapped nine CNPC workers from the Heglig oil field in the GNPOC concession and killed five of them.[44] The kidnappers said they wanted oil firms to leave Sudan "because they work with the government."[45]

## Impacts of exploration activities on local populations

Oil activities in southern Sudan have been associated with human rights abuses against populations living in concession areas, and there is a risk such abuses may be repeated, especially in the context of renewed conflict in Sudan. During the civil war fought between Sudan's north and south from 1983 to 2005, security forces associated with certain oil consortia were linked with numerous human rights violations, including forced displacement and violence against communities in project areas.

Concession areas currently under GNPOC and Petrodar's control were the site of Sudanese government attacks on civilian populations during the civil war. These attacks are said to have been part of a strategy to clear areas for exploration. Government offensives around Block 1 displaced at least 50% of one county's inhabitants, with village clearings involving bombing attacks on civilians and ground attacks by SAF troops and local militias.[46] Villages in the Petrodar concession area suffered similar attacks and displacements. Exploration in the Block 5A concession, now operated by Petronas, was linked with the deaths of at least 12,000 people and the displacement of another 160,000 during Sudan's civil war.[47]

Environmental impacts are also known to accompany some oil activities. As recently as November 2006, GNPOC consortium facilities were discharging untreated "produced water," which is extracted alongside crude oil.[48] Produced water is non-potable and cannot be used for human or plant consumption. It is unclear if this discharge of untreated waste water continues, but Unity State residents still believe that oilfields in the state are causing water pollution and sickness. GNPOC has responded to these concerns by stating that it has conducted tests that refute such claims and that GNPOC plants comply with international environmental standards.[49] Petronas has also been involved in the construction of a bioremediation plant designed to process and purify "produced water" generated by GNPOC operations through the use of microbial technology.[50]

In both the GNPOC and Petrodar concession areas, oil exploration has affected local residents' ability to access unpolluted water sources for personal and agricultural use. Roads built to service oil installations have shifted the direction of water flows, causing localized droughts and flooding.[51]

Petronas' holdings in Block 5A may associate the company with further environmental and human-related rights risks and impacts. WNPOC's operations in Block 5A have been accused of contaminating the local water supply, affecting at least 300,000 people in Unity State, spreading disease to humans and cattle, and threatening the Sudd, the world's largest inland wetlands.[52] In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards oil projects and companies.

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[53] Petronas' extensive operations in Sudan's oil industry directly tie the country to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in the Darfur region or in a potential conflict with Sudan's south.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement.[54]

All of Petronas' producing concessions are in the south and rely on northern infrastructure for export; therefore, associated revenue would likely be subject to a revenue sharing agreement struck between the Government of Sudan and an independent south. Transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty, and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[55]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As Petronas is currently involved in exploration, production, and other activities defined as "Oil-Related Activities" under the targeted Sudan divestment legislative model, it is classified as "Scrutinized."

Petronas is wholly owned by the Malaysian government, but it has issued more than U.S. $3 billion in corporate bonds, and therefore can be held through fiduciary fixed income portfolios. Several of Petronas' subsidiaries, both publicly traded and privately held, have issued corporate bonds as well.

In addition to the companies identified as part of Petronas' relevant corporation structure, the company plans to present initial public offerings (IPO) for several other subsidies. This includes its subsidiary Petronas Chemicals Group Berhad, which is expected to be the subject of southeast Asia's largest IPO upon listing on November 26, 2010.[56]

Petronas has also conducted activities that would not call for scrutiny under the targeted divestment model. Petronas' 2008 annual report indicates that it has secured a contract to supply diesel and aviation fuel for the United Nations African Mission in Darfur (UNAMID), which is not considered problematic under the targeted model.[57] The company, through its subsidiary Petronas Marketing Sudan Limited (PMSL), has also acquired Royal Dutch Shell's aviation refueling business at the Khartoum and El-Obeid airports.[58] Even through retail operations do not typically call for scrutiny under the targeted Sudan divestment legislative model, there is no firewall preventing PMSL from refueling Sudanese military aircraft. Shell sold its Sudan aviation business to Petronas under pressure from human rights groups specifically because of this concern.[59] In the event that PMSL is involved in these operations, it would implicate the company under the "Military Equipment" provision of the targeted model legislation.

## ENGAGEMENT

In May 2008, CRN met with Petronas' CEO and other company representatives to discuss the company's Sudan-related operations. The discussion also focused on steps that Petronas might take to address stakeholder scrutiny, as well as the implications of U.S. legislation.

Most recently, CRN reached out to Petronas in October 2010 to discuss issues of security, revenue transparency, and the upcoming referendum on southern independence scheduled for January 2011 as part of a CRN priority engagement effort. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Petronas does not have a stand-alone human rights policy, but it states in its Guidelines for Business Conduct that it believes businesses have a "role to play in the promotion and protection of internationally recognised human rights standards within their respective spheres of influence."

The company states further in its 2009 Sustainability Report, stating that it understands the importance of addressing and safeguarding human rights within its sphere of influence.[60]

### 2. Impact Assessments

Petronas states that it conducts environmental impact assessments on all of its projects.[61] It is unclear if the company conducts social impact assessments for its projects, but Petronas staff have served as part of the International Petroleum Industry Environmental Conservation Association's (IPIECA) social responsibility working group.[62]

The company does not release the results of these impact assessments to the public.

### 3. Human Rights Integration

In 2008, Petronas developed a human rights training pack to provide comprehensive human rights training to its entire staff. The company also states that it plans to conduct human rights training for all of its major operations in 2010 and that it encourages all of its business partners to observe laws and regulations governing human rights.

### 4. Human Rights Tracking and Reporting

In its **2009** Sustainability Report, Petronas indicated that it follows the GRI reporting guidelines. However, it appears that the company primarily focuses on labor and employee rights as opposed to the impact that its operations have on local communities.[63]

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Petronas is not a VPSHR participant.

### UN Global Compact

Petronas is not a UNGC participant.

### EITI

Petronas is not an EITI participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

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COMPANY

# PETROLIN GROUP

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **GABON** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Petrolin Group (Petrolin) is a private oil and gas company based in Gabon. The company is a partner with Libya-based Tamoil in the All Africa Investment Corporation's (AAIC) joint venture in Sudan, which holds a stake in the Block 12A oil concession in the sensitive Darfur region.[3]

As Petrolin is not publicly traded, it does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In 2006, Petrolin and Tamoil, operating jointly as AAIC, acquired a 5% stake in Block 12A, which extends from upper North Darfur to the Libyan border.[4] The block is operated by the Greater Sahara consortium, comprised of Abdel Hadi Abdullah Al-Qahtani & Sons Group of Companies (Al-Qahtani & Sons; 33%), Yemen's Ansan Wikfs Investments Limited (Ansan Wikfs; 20%), Sudapet (20%), Hi–Tech Petroleum Group Co. Ltd (7%), and Dindir Petroleum International (Dindir Petroleum; 15%).[5] The companies paid U.S. $43 million to acquire drilling rights in Block 12A.[6] According to satellite photos commissioned by the UK-based non-governmental organization Global Witness, Block 12A was under exploration in late 2009 and early 2010.[7]

## POTENTIAL CONCERNS AND RISKS

### General potential for increasing instability and violence following anticipated southern secession in January 2011

There is a history of direct connections between the oil industry and conflict in Sudan. This is particularly true in the context of civil war between Sudan's north and south. It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence, and the oil industry and its infrastructure might be assets over which the north and south will battle.

### Risk of violence in association with oil exploration activities

Oil activities in southern Sudan have been associated with human rights abuses against populations living in concession areas, and there is a risk such abuses may be repeated, especially in the context of renewed conflict in Sudan. During the civil war fought between Sudan's north and south from 1983 to 2005, security forces associated with certain oil consortia were linked with numerous human rights violations, including forced displacement and violence against communities in project areas.

It appears that the Sudanese military has used force to secure concession areas in advance of AAIC's exploration activities in Block 12A.[8] In August 2008, Sudan Armed Forces launched major military operations against rebels in North Darfur, where foreign teams were reportedly engaged in exploration activities.[9]

This risk is additionally exacerbated by the rebel Justice and Equality Movement (JEM) opposition to oil exploration in Darfur while the conflict is ongoing. As JEM has kidnapped oil workers in the past, this may increase the risk that Petrolin's employees will be targeted by rebels operating throughout Darfur.

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[10] If Block 12A enters production, Petrolin might be tied to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south. Such a stream would be even more material to the Sudanese government in the case of southern secession, given that the north stands to lose 60% to 75% of its revenue in that scenario.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement (SPLM).[11]

As Petrolin's concession is in Sudan's north, any revenue it produced likely would not be subject to a revenue sharing agreement struck between the Government of Sudan and an independent south. Nevertheless, transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[12]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As of November 2010, Petrolin is not implicated under the targeted Sudan divestment legislative model because it is not publicly traded.

## ENGAGEMENT

CRN has sent regular inquiries since 2007 requesting dialogue and further information regarding Petrolin's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Petrolin has not published a human rights policy or reference key human rights norms in its materials.

### 2. Impact Assessments

No information is available on whether Petrolin has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Petrolin is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

Petrolin is not a UNGC participant, and its materials do not otherwise indicate support for the principles.

### EITI

Petrolin is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

# NOTES: PETROLIN GROUP

[1] Jeffrey Gettleman, “War in Sudan? Not Where the Oil Wealth Flows,” New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

[2] “Sudan-Macroeconomic Policy,” African Economic Outlook, August 3, 2010, at http://www.africaneconomicoutlook.org/en/countries/east-africa/sudan/#macro_economic_policy; Paul J. Sullivan and Natalie Nasrallah, “Improving Natural Resource Management in Sudan,” p. 3, United States Institute of Peace, June 2010, at http://www.usip.org/resources/improving-natural-resource-management-in-sudan.

[3] “Tamoil Wins Acreage in Sudan,” Africa Energy Intelligence, March 28, 2007, at http://www.africaintelligence.com/ (last accessed August 28, 2009; subscription required).

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[5] “Concession Map,” Sudapet website, at http://www.sudapet.sd/concession_map.php.

[6] Edmund Sanders, “Search for Oil Raises the Stakes in Darfur,” Los Angeles Times, March 8, 2007, at http://articles.latimes.com/2007/mar/03/world/fg-oil3.

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[8] “Sudan talks to Chinese firms for help in Darfur oil exploration,” Sudan Tribune, July 9, 2008, at http://www.sudantribune.com/spip.php?article27781.

[9] Id. and Eric Reeves, “Khartoum’s patterns of violence in Darfur, 2008,” Sudan Tribune, September 14, 2008, at http://www.sudantribune.com/spip.php?article28608.

[10] “Oil in Sudan Fact Sheet,” Amnesty International, at http://www.amnestyusa.org/business/FINAL%20OIL_IN_SUDAN_FACT_SHEET.pdf.

[11] “Sudan—Fuelling Mistrust,” p. 19, Global Witness, 2009, at http://www.globalwitness.org/library/fuelling-mistrust-need-transparency-sudans-oil-industry.

[12] “Fuelling Mistrust: The Need for Transparency in Sudan’s Oil Industry,” Global Witness, September 7, 2009, at http://www.globalwitness.org/library/oil-production-figures-underpinning-sudan%E2%80%99s-peace-agreement-don%E2%80%99t-add.

COMPANY

# PETRONEEDS SERVICE INTERNATIONAL COMPANY

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **SUDAN** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Based in Sudan, Petroneeds Service International Company (Petroneeds) provides services primarily in the oil and gas sectors.[3] Since 2004, Petroneeds has supplied infrastructure to oil concessions that have been associated with human rights abuses and environmental problems. As the company is not publicly traded, it does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Petroneeds began its work in Sudan's oil industry as early as 2004, when the company engaged in an engineering, procurement, construction and commissioning (EPCC) contract for the Petrodar Operating Company's (PDOC) Palogue and Al Jabalyn oil fields.[4]

This was followed by a 2006 contract to fence upstream facilities at the Palogue field.[5] The company may also have been involved in a previous EPCC contract for the Palogue field production facility.[6]

The company carried out these projects as part of a joint venture with Ranhill Berhad (Ranhill).[7] Ranhill conducted the engineering, procurement and commissioning activities, while Petroneeds was responsible for construction and logistics.[8] The Peteroneeds/ Ranhill joint venture is in litigation in Sudan with MAM Contracting and Construction Co.—a Sudanese company and sub-contractor—over payments, cost over-runs, and abandoned work.[9]

Petroneeds also completed projects for the Greater Nile Petroleum Operating Company (GNPOC), including the providing a service rig, water, and vacuum tankers for drilling operations at the consortium's oil fields at Heglig, Unity, Munga, and Diffra.[10] The company also built accommodations at Heglig.[11]

In September 2010, Petroneeds won a U.S. $15.6 million contract to build a new oil rig for the Petrodar concession.[12] Petroneeds is reportedly also bidding on an EPCC contract for the White Nile Petroleum Operating Company (WNPOC)'s Mala Satellite Field compact sub–stations.[13]

## POTENTIAL CONCERNS AND RISKS

### Impact of oil exploration activities on local populations

Oil activities in southern Sudan have been associated with human rights abuses against populations living in concession areas, and there is a risk such abuses may be repeated, especially in the context of renewed conflict in Sudan. During the civil war fought between Sudan's north and south from 1983 to 2005, security forces associated with certain oil consortia were linked with numerous human rights violations, including forced displacement and violence against communities in project areas.

Concession areas currently under the control of Petrodar, for whom Petroneeds is building new oil wells, saw Sudanese government attacks on civilian populations during the civil war. These attacks appeared designed to clear the exploration areas of their local inhabitants. Beginning in 1994, villages in the Adar Yale and Khor Adar areas were repeatedly attacked in a similar manner, first by aircraft and then by land-based forces. These attacks in Upper Nile displaced at least 12,000 people prior to Petrodar's entrance into the concession. Attacks on villages in the concession area continued until 2004, resulting in the destruction of most villages located near oil service roads.[14]

In addition to these issues, oil projects in Sudan have affected the ability of local residents to access unpolluted water sources for personal and agricultural use. In the Petrodar area, roads built to service oil installations have shifted the direction of water flows, causing localized droughts and flooding.[15] In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards oil projects and companies.

Due to Petroneeds' continued presence in the Petrodar concessions, the company may be directly associated with and exposed to some of the oil industry's immediate risks and impacts such as insecurity, displacement, kidnapping of workers, attacks on facilities, and environmental degradation.

Petroneeds' products also add value to and facilitate the functioning of a consortium with a history of abuses that is of particular concern given the risk of a return to conflict following South Sudan's anticipated secession in 2011. The company reportedly was involved in constructing and expanding oil processing facilities for the Melut Basin Oil Project belonging to Petrodar, a consortium whose exploration and development activities were linked—during the final phase of Sudan's civil war—with human rights abuses against local populations. These included government troops' and allied militias' destruction of villages in the concession area, the forcible displacement of the local population, and the degradation of agricultural lands.[16] The potential for violence and insecurity around the Petrodar consortium in the case of southern secession seems particularly acute, given that the consortium's oil fields straddle the border between Sudan's north and south.

### Association with key revenue stream to Sudanese government

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and 22 years of civil war between Sudan's north and south.[17]

Petroneeds may be linked with facilitating a key stream of revenue to the Sudanese government, given that it was involved in constructing processing facilities for the Melut Basin Oil Project belonging to Petrodar. The Melut Basin's fields are some of the most productive in Sudan, with production in 2009 of between 230,000 and 270,000 barrels per day.[18]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As of November 2010, Petroneeds is not implicated under the targeted Sudan divestment legislative model because it is not publicly traded.

## ENGAGEMENT

CRN sent an initial inquiry to Petroneeds in November 2008 requesting dialogue and information regarding the company's operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

In its Ethic Policy, Petroneeds states that it is committed to the prevention of human rights violations of "any kind."[19] However, the company appears to focus on labor issues in this regard.

### 2. Impact Assessments

No information is available on whether Petroneeds has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Petroneeds is not VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

Petroneeds is not UNGC participant.

### EITI

Petroneeds is not an EITI participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

# NOTES: PETRONEEDS SERVICE INTERNATIONAL COMPANY

[1] Jeffrey Gettleman, "War in Sudan? Not Where the Oil Wealth Flows," New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

[2] "Sudan-Macroeconomic Policy," African Economic Outlook, August 3, 2010, at http://www.africaneconomicoutlook.org/en/countries/east-africa/sudan/#macro_economic_policy; Paul J. Sullivan and Natalie Nasrallah, "Improving Natural Resource Management in Sudan," p. 3, United States Institute of Peace, June 2010, at http://www.usip.org/resources/improving-natural-resource-management-in-sudan.

[3] "Welcome to Petroneeds," Petroneeds Service International Company website, 2007, at http://petroneeds.net/main.php.

[4] "Melut Basin Oil Development Project," Petroneeds Service International Company website, at http://petroneeds.net/proj_body.php?id=1. Presumably, this is the project undertaken by the joint venture Petroneeds formed with Ranhill International (RII). RII and Petrodar had a legal dispute over services and payment rendered on this project, though the dispute was settled recently. The status of the joint venture and Petroneeds' involvement in the dispute and settlement are unclear. See Langdon D. Clough, "Energy Profile of Sudan," The Encyclopedia of Earth, September 12, 2007, at http://www.eoearth.org/article/Energy_profile_of_Sudan.

[5] "Fencing of Up-Stream Facilities," Service International Company website, at http://petroneeds.net/proj_body.php?id=2.

[6] "Aljabalayn CPF, Palouge FPF Expansion," Petroneeds Service International Company website, at http://petroneeds.net/proj_body.php?id=10.

[7] "Ranhill Secures Major Oil & Gas Contract in Sudan," Ranhill Press Release, June 8, 2004 at http://www.ranhill.com.my/Detail.asp?n_id=33&sectionID=2&subsectionID=1 (link no longer available; copy retained by CRN).

[8] Goh Thean Eu, "Overdue Sudan claims to be paid in stages," New Straits Times, September 27, 2007 (Lexis Nexis).

[9] Risen Jayaseelan, "Corporate: Ranhill's Sudan Project Hits Snag," The Edge Daily, 2005, posted on YTL Community, at http://www.ytlcommunity.com/testingwebsite/news/shownews.asp?newsid=19625 (link no longer available; copy retained by CRN); "Ranhill Berhad Statutory Financial Statements," 30 June 2009 (copy retained by CRN).

[10] "Provision of Service Rig & Associated Services," Petroneeds Service International Company website, at http://petroneeds.net/proj_body.php?id=8; "Provision of Water & Vacuum Tankers for Drilling Operations," Petroneeds Service International Company website, at http://petroneeds.net/proj_body.php?id=4.

[11] "Prefab Accommodation," Petroneeds Service International Company website, at http://petroneeds.net/proj_body.php?id=3.

[12] Opheera McDoom, "Sudan to drill 11 new oil wells for $166.[5] mln," Reuters, September 29, 2010, at http://af.reuters.com/article/investingNews/idAFJOE68S0FZ20100929.

[13] "Supply of Compact Sub-Stations," Petroneeds Service International Company website, 2007, at http://petroneeds.net/proj_body.php?id=6.

[14] "Oil Development in Upper Nile Sudan," p. 12-17, European Coalition on Oil in Sudan, at http://www.ecosonline.org/reports/2006/%5Eindex.html/ECOS%20Melut%20Report%20final%20-text%20only.pdf.html.

[15] "Soil, Oil, and Human Rights:" p. 384, Human Rights Watch, November 2003, at http://www.hrw.org/sites/default/files/reports/sudanprint.pdf; "Oil Development in Upper Nile Sudan," p. 22, European Coalition on Oil in Sudan, at http://www.ecosonline.org/reports/2006/%5Eindex.html/ECOS%20Melut%20Report%20final%20-text%20only.pdf.html.

[16] See "Oil Development in Northern Upper Nile, Sudan," European Coalition on Oil in Sudan, May 2006, at http://www.ecosonline.org/reports/2006/%5Eindex.html/ECOS%20Melut%20Report%20final%20-text%20only.pdf.html.

[17] Jeffrey Gettleman, "War in Sudan? Not Where the Oil Wealth Flows," New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

[18] "Revenue of Crude Oil (Jan—Dec) Year 2009," Sudanese Ministry of Finance and National Economy, August 3, 2009, at http://www.mof.gov.sd/topics_show_E.php?topic_id=1# ; "Sudan's production of Dar blend crude to reach 300k bpd," Sudan Tribune, June 17, 2009, at http://www.sudantribune.com/spip.php?article31489.

[19] Petroneeds Services International Co. ltd. Ethic Policy," Petroneeds website, 2010, at http://www.petroneeds.net/show.php?id=4.

COMPANY

# PT PERTAMINA PERSERO

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **INDONESIA** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

PT Pertamina Persero (Pertamina) is Indonesia's state-owned oil and gas company. The company holds a 15% stake in Block 13, operated by the Coral Petroleum Operating Company.[3] As this concession is located offshore in northeastern Sudan, its activities do not present some of the risks associated with onshore blocks—particularly those in Darfur and southern Sudan—in terms of direct impacts on local populations and instability surrounding southern Sudan's 2011 referendum on secession. As Pertamina is not publicly traded, it does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In 2007, Pertamina secured its first contract in Sudan: a 15% stake in the offshore Block 13, operated by the Coral Petroleum Operating Company (CPOC).[4] Pertamina's partners in the block are China National Petroleum Corporation (CNPC) (40%); Sudapet, Sudan's state oil company (15%); Dindir Petroleum International of Sudan (10%); and Nigerian companies Express Petroleum (10%) and Africa Energy (10%).[5] The CPOC partners signed a joint operation contract in June 2007 and were expected to complete exploration work within three years.[6] Sudapet states that Block 13 operators had acquired 2D marine seismic data, reprocessed old data, and acquired gravity and magnetic surveys by the end of 2008.[7] As of November 2010, Block 13 is still in the exploration stages, and at least two exploration wells have been drilled.[8]

Pertamina has expressed interest in acquiring additional oil-related assets in Sudan. In June 2009, Pertamina and Sudapet reportedly began talks concerning an oilfield swap, where "[Pertamina] proposed that [Sudapet] acquire some of their blocks in Indonesia and they acquire more blocks in Sudan so they can strengthen their presence in Sudan."[9] Sudan's legislature issued statements in September 2010 that noted the support Indonesia and Sudan provide each other in international forums and that appeared to advocate for increasing the company's operations in Sudan's oil industry.[10]

Pertamina has also purchased Sudanese crude on the spot market, including at least 1.2 million barrels of Nile blend crude over the past eighteen months, with the last purchase being delivered in January 2010.[11]

## POTENTIAL CONCERNS AND RISKS

### Ongoing local instability and potential for increasing instability, violence, and insecurity following anticipated southern secession in January 2011

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Because the Government of Sudan and the regional Government of South Sudan currently rely on oil for 63% and 98% of their respective revenues, and the regions have not yet stuck an agreement on sharing revenue in the case of southern secession, many fear that the referendum and southern secession might trigger violence between the north and south. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

Because Pertamina's oil concession is offshore and in northern Sudan, it does not face or present the risks associated with onshore blocks—particularly those in Darfur and southern Sudan—in terms of direct impacts on local populations and instability surrounding southern Sudan's 2011 referendum on secession.

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[12] If Block 13 enters a production phase, Pertamina might be tied to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south. Such a stream would be even more material to the Sudanese government in the case of southern secession, given that the north stands to lose 60 to 75% of its revenue in that scenario.[13]

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's

Liberation Movement. The CPA brought an end to 22 years of civil war between Sudan's north and south, which led to the deaths of two million Sudanese.

Because Pertamina's concession is in Sudan's north, any revenue produced would likely not be subject to a revenue sharing agreement with the south. Nevertheless, transparency in revenue reporting—by companies and the government—has been identified as key to actualizing an agreement, in addition to being critical for reducing corruption, poverty and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[14]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As of November 2010, Pertamina is not implicated under the targeted Sudan divestment legislative model because it is not publicly traded.

However, this categorization may shift in the near future. Though owned wholly by the Indonesian government, Pertamina reportedly intends to transform itself into a public company.[15] In November 2009, Pertamina's Chief Financial Officer Frederick Siahaan revealed that the company might list some units on the Indonesian stock exchange in 2010, with the longer-term goal of offering the public a stake. In order to list publicly by 2012, the company plans to implement stock market guidelines in 2010.[16] The Indonesian government put its plans to adopt these guidelines on a temporary hold in September 2010.[17]

Pertamina has previously announced plans to issue bonds.[18] As recently as February 2010, the company had selected international financial institutions to underwrite its bond issue.[19] However, as of November 2010, Pertamina has not issued any bonds.[20]

Several other Pertamina subsidiaries including PT Pertamina Hulu, PT Geothermal Energi, PT Pertamina Gas, and PT Pertamina Drilling Services may also be offered to the public in 2010.[21] If this happens, Pertamina's categorization under the targeted divestment legislative model will require reevaluation.

## ENGAGEMENT

CRN has sent regular inquiries since 2007 requesting dialogue and further information regarding Pertamina's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Pertamina has not published a human rights policy or referenced human rights in its public materials.

### 2. Impact Assessments

No information is available on whether Pertamina has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Pertamina is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

Pertamina is not UNGC participant.

### EITI

Pertamina is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: PT PERTAMINA PERSERO

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[11] Yee Kai Pin, “Pertamina Buys Nile Blend: Sixth Cargo of Crude for September,” Bloomberg LP, July 9, 2009; Christian Schmollinger, “Pertamina buys 2.4 million barrels of crude oil for January,” Bloomberg, November 12, 2009, at http://www.bloomberg.com/apps/news?pid=20601072&sid=ag8jA_TNqybk; “Pertamina to import Nile Blend from Sudan,” Antara News, February 5, 2010, at http://www.antara.co.id/en/news/1265328836/pertamina-to-import-nile-blend-from-sudan.

[12] Jeffrey Gettleman, “War in Sudan? Not Where the Oil Wealth Flows,” New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

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COMPANY

# PTT PUBLIC COMPANY LTD

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **THAILAND** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**PTT EXPLORATION & PRODUCTION PCL** (majority owned, publicly traded subsidiary)
**PTTEP AUSTRALIA INTERNATIONAL FINANCE PROPRIETARY LTD.** (majority owned subsidiary, bonds issued)

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

PTT Public Company Limited (PTT) is a fully-integrated oil and gas company majority owned by the Thai government.[3] PTT has been linked with the purchase of Sudan's Dar Blend crude. Though PTT does not appear to have a physical presence within Sudan, its transport of crude oil may assist the Sudanese government in generating revenue from its oil industry. PTT's purchase of Sudanese crude oil constitutes "Oil-Related Activities" under the targeted Sudan divestment legislative model, and is classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In August 2009, PTT reportedly purchased 600,000 barrels of Sudan's Dar Blend crude, produced by the Petrodar consortium.[4]

In the past, PTT's oil and gas exploration subsidiary, PTT Exploration & Production Pcl (PTT Exploration), has been linked with potential oil exploration in Sudan. In August 2006, a Thai official revealed that PTT Exploration had a plan to "expand to meet rising demand and ensure long-term revenue growth" by cooperating with China to exchange equity holdings in existing oil fields and locate a new oil field in Sudan.[5] CRN has not seen reports confirming that this exploration interest in Sudan has come to fruition.

## POTENTIAL CONCERNS AND RISKS

### Revenue stream and transparency

PTT does not have a presence on the ground in Sudan, so it is not associated directly with some of the industry's immediate risks and impacts such as displacement, kidnapping of workers, attacks on facilities, and environmental degradation. It is, however, associated with a revenue stream to the Sudanese government. Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[6] PTT's purchase of Sudanese crude oil ties it to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement (SPLM).[7]

Transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[8]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

PTT's purchase of Sudanese Dar Blend crude oil is considered an "Oil-Related" activity under the targeted Sudan divestment legislative model, and the company is therefore classified as "Scrutinized."

## ENGAGEMENT

CRN sent an initial inquiry requesting dialogue and further information regarding PTT's Sudan-related operations in 2009. CRN has not received a response.

CRN is privy to communications in February 2010 between PTT and a CRN member regarding PTT's Sudan-related activities. In this communication, PTT asserted that it does not have current or future business operations in Sudan, and Sudan is not one of the countries listed for future business expansion.[9] Regardless, PTT is profiled in this report because of its reported purchase of Dar Blend crude from Sudan.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

In its Corporate Governance and Code of Ethics Handbook, PTT states that it will "strictly abide by Human Rights Principles and provide PTT personnel with knowledge and understanding of Human Rights Principles in order that they can apply such principles in their work. PTT shall not support any business that violates Human Rights Principles."[10]

### 2. Impact Assessments

PTT conducts environmental impact assessments prior to commissioning its plants within Thailand.[11] There is no information available detailing what efforts, if any, are made to conduct human rights assessments or environmental impact assessments on projects outside of Thailand.

### 3. Human Rights Integration

PTT states that it requires all directors and staff to strictly respect international human rights principles, as laid out in its Corporate Governance and Code of Ethics Handbook.[12]

### 4. Human Rights Tracking and Reporting

In 2009, PTT published its Sustainability Report using the Global Reporting Initiatives as a guideline. However, the report only tracks the GRI indicators as they relate to labor practices, not other human rights concerns.[13]

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

PTT is not a UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

PTT's Board of Directors has been tasked with overseeing the company's corporate social responsibility policy, through its Corporate Governance, Management, and Audit Committees.

The company has executive level involvement on corporate social responsibility through presidential involvement on its Management committee.[14] The company also has an Executive Vice President for Corporate Communications & Corporate Social Responsibility who reports directly to the President and CEO.[15]

There is no information available about whether the company considers its corporate social responsibility to include human rights-related concerns.

## NOTES: PTT PUBLIC COMPANY LTD

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[10] Corporate Governance and Code of Ethics Handbook," p. 35, PTT Public Company Limited, 2010, at http://www.pttplc.com/en/good-corporate-governance-handbook.aspx.

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COMPANY

# RANHILL BERHAD

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **MALAYSIA** | **OIL** | **PRIORITY ENGAGEMENT** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**RANHILL INTERNATIONAL INC. AKA RII** (wholly owned subsidiary with Sudan-related operations)
**RANHILL LABUAN LTD.** (wholly owned subsidiary, bonds issued)
**RANHILL POWERTRON SDN** (wholly owned subsidiary, bonds issued)

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Based in Malaysia, Ranhill Berhad (Ranhill) is an engineering and construction corporation that focuses on several industry sectors, including oil and gas, power plant design, engineering, industrial water treatment, and infrastructure development.[3] Through its subsidiary, Ranhill International Inc. (RII), Ranhill has supplied infrastructure to oil concessions that have been associated with human rights abuses and environmental problems.

As Ranhill is involved projects defined as "Oil-Related Activities" under the targeted Sudan divestment legislative model, it is classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In June 2004, Ranhill Berhad's subsidiary RII formed a joint venture with Petroneeds Services International (Petroneeds). The joint venture, 55% owned by RII, won a U.S. $239.4 million engineering, procurement, construction, and commissioning (EPCC) contract with the Petrodar consortium to build upstream oil facilities in the Melut Basin.[4]

RII incurred significant cost overruns on the project, most likely because of underbidding, and in 2006, began seeking remuneration of nearly U.S. $200 million from Petrodar for completed work.[5] The company continues work on the project, despite payment-related problems with Petrodar.[6] MAM Contracting and Construction Co. (MAM), a Sudanese company and sub-contractor, filed claim in Khartoum against RII for outstanding payments. RII and Petroneeds filed a counterclaim against MAM for overpayment as well as outstanding and abandoned work.[7]

In September 2007, Ranhill and Petrodar reached a settlement regarding Ranhill's work in the Melut Basin.[8] It appears that as part of the settlement, Ranhill[9] was awarded an EPCC contract to expand and upgrade the Melut Basin's Al-Jabalayn and Palogue oil processing facilities.[10] According to Ranhill, about 27% of this contract's value represented payment for the company's old claims.[11]

Ranhill will undertake all of the engineering, procurement, and commissioning activities, while China Petroleum Engineering & Construction Corp., a subsidiary of China National Petroleum Corporation Petroneeds will undertake the project's construction and logistics.[12] Ranhill noted that the basic engineering work for the expansion of the Al-Jabalayn processing facility and the upgrading of the Palogue production facilities is substantially completed. Work to incorporate vendor data and complete final documentation remains outstanding.[13]

The project was expected to be completed by August 2009,[14] but Ranhill continues to list it as ongoing. Ranhill reported that it expected to obtain provisional acceptance for the expansion project in February 2010, but it is unclear if this signals completion.[15] Ranhill's partner in the joint venture, Petroneeds, indicates that project is completed.[16]

In the past, Ranhill had expressed hope that its initial contracts in Sudan would lead to further contracts in the country.[17] However, Ranhill's investments in Sudan have been problematic for the company, reportedly prompting its slow exit from the oil and gas sector in general.[18]

## POTENTIAL CONCERNS AND RISKS

### Association with concession-related impacts

While Ranhill may have had a significant presence on the ground during the earlier stages of its EPCC work in the Melut Basin, its current presence seems limited. Given the company's limited presence in Sudan it is less associated with or exposed to some of the oil industry's immediate risks and impacts such as insecurity, displacement, kidnapping of workers, attacks on facilities, and environmental degradation. It may, however, be linked indirectly to these potential problems.

Ranhill's products add value to and facilitate the functioning of a consortium with a history of abuses that is of particular concern given the risk of a return to conflict following South Sudan's anticipated secession in 2011. The company reportedly was involved in constructing and expanding oil processing facilities for the Melut Basin Oil Project belonging to Petrodar, a consortium whose exploration and development activities were linked—during the final phase of Sudan's civil war—with human rights abuses against local populations. These included government troops' and allied militias' destruction of villages in the concession area, the forcible displacement of the local population, and the degradation of agricultural lands.[19] The potential for violence and insecurity around the Petrodar consortium in the case of southern secession seems particularly acute, given that the consortium's oil fields straddle the border between Sudan's north and south.

In addition to these issues, oil projects in Sudan have affected the ability of local residents to access unpolluted water sources for personal and agricultural use. In the Petrodar area, roads built to service oil installations have shifted the direction of water flows, causing localized droughts and flooding.[20] In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards oil projects and companies.

### Association with key revenue stream to Sudanese government

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and 22 years of civil war between Sudan's north and south.[21]

Ranhill may be linked with facilitating a key stream of revenue to the Sudanese government, given that it was involved in constructing processing facilities for the Melut Basin Oil Project belonging to Petrodar. The Melut Basin's fields are some of the most productive in Sudan, with production in 2009 between 230,000 and 270,000 barrels per day.[22]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Ranhill's construction projects for the Petrodar consortium are considered "Oil-Related Activities" under the targeted Sudan divestment legislative model, and it is therefore classified as "Scrutinized."

## ENGAGEMENT

CRN sent an initial inquiry requesting dialogue and further information regarding Ranhill's Sudan-related operations in October 2007. Upon receipt, Ranhill expressed interest in a meeting and engaged in a brief dialogue. In May 2008, Ranhill's President and CEO met with CRN representatives in Malaysia to discuss the company's Sudan-related business, steps it might take to address stakeholder concerns, and the implications of U.S. legislation.[23]

In 2009, CRN sent a request for updated information and a renewed dialogue to Ranhill in May 2009. Most recently, CRN reached out to Ranhill in October 2010 to discuss issues of security, revenue transparency and the upcoming referendum on southern independence scheduled for January 2011 as part of a CRN priority engagement effort.  CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Ranhill does not have a stand-alone human rights policy. However, in its accession letter for the UN Global Compact (UNGC), it expressed support for the ten principles of the UNGC, which include support for and respect of internationally proclaimed human rights and avoiding complicity in human rights abuses.[24]

According to Ranhill's 2009 UN Global Compact Communication on Progress, the company has incorporated policies supporting and protecting internationally proclaimed human rights into its Code of Ethics & Conduct for Employees. However, it has not made this code available on its website. It also appears that the company's primary concern as it pertains to human rights is labor rights.[25]

Ranhill also has expressed a commitment to sustainability through the adaptation of four sustainability tenets (marketplace, workplace, community, and environment,) in regard to all aspects of its operations.[26]

### 2. Impact Assessments

Ranhill has conducted environmental impact assessments for its past projects in Malaysia.[27] No information is available on whether Ranhill has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

The company distributes its Code of Ethics and Conduct for Employees to all of its employees upon joining and provides training in corporate policies during an initial induction course.[28] As Ranhill does not publish the Code of Ethics and Conduct for Employees it is unclear if this includes human rights issues, but the company's primary focus on labor rights suggests that its inclusion on human rights is limited.

### 4. Human Rights Tracking and Reporting

In its annual Communication on Progress to the UN Global Compact, Ranhill aligned its human rights reporting with GRI index guidelines,[29] but does not address human rights concerns in its other reports and materials. The Communication on Progress does not track Ranhill's progress in regard to its human rights policy.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Ranhill is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

Ranhill has been a member of the UN Global Compact since September 11, 2008.

### EITI

Ranhill is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on the board-level involvement on human rights-related risks and concerns.

# NOTES: RANHILL BERHAD

[1] Jeffrey Gettleman, "War in Sudan? Not Where the Oil Wealth Flows," New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

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COMPANY

# SARAS S.P.A.

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **ITALY** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Saras S.p.A (Saras) is an Italy–based firm specializing in petroleum refining, distribution and sales. Saras has refined Sudanese crude oil at its Sarroch refinery.

The refining of Sudanese crude oil constitutes "Oil-Related Activities" under the targeted Sudan divestment legislative model. However, more information is required to determine if the company should be classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In September 2007, Saras reported that it had refined a spot delivery of Sudan crude oil at its Sarroch refinery in Sardinia, Italy. This was done to assess the refining viability of Sudanese crude oil, which was found satisfactory.[3] Shortly after it has processed this initial delivery, Saras stated that it has open to processing more Sudanese crude given its similarities with crude sources from the North Sea.[4]

As of November 2010, Saras does not seem to have entered any contracts for the delivery of Sudanese crude.[5] However, the company's crude oil slate includes a sizeable percentage (27%) of heavy sour crude, which raises the possibility that it refines Sudan's Dar Blend crude.[6]

## POTENTIAL CONCERNS AND RISKS

### Revenue stream

Saras does not have a presence on the ground in Sudan, so it is not associated directly with some of the industry's immediate risks and impacts such as displacement, kidnapping of workers, attacks on facilities, and environmental degradation. It is, however, associated with a revenue stream to the Sudanese government. Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[7] By processing cargos of Sudanese crude oil, Saras is tied to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Delete this paragraph and replace with "The refining of crude is considered "Oil-Related Activities" under the targeted model; however more information is required to determine if the company should be classified as "Scrutinized."

## ENGAGEMENT

Since 2007, CRN has sent regular inquires requesting dialogue and further information regarding Saras' Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

In its Code of Ethics, Saras states that it upholds and respects human rights in accordance with the Universal Declaration of Human Rights.[8]

### 2. Impact Assessments

No information is available on whether Saras has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

Saras implements an annual training plan to familiarize its employees with guidelines laid out in its Code of Ethics.[9] The company also states that it requires its suppliers comply with its ethical principles as depicted in its Code of Ethics.[10]

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

Saras is not a UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: SARAS S.P.A.

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[8] Saras Code of Ethics : Our Values, Our Principles,” p. 12, Saras S.p.A., 2006, at http://www.saras.it/saras/_uploads/documents/1SARAS_Code_of_Ethics.pdf.

[9] Id. at 34.

[10] Id. at 15.

COMPANY

# SCHLUMBERGER LTD.

COUNTRY
**NETHERLANDS ANTILLES**

SECTOR
**OIL**

CRN CLASSIFICATION
**PRIORITY ENGAGEMENT**

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY
**SUBSTANTIAL ACTION**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL
**SCHLUMBERGER INDUSTRIES** (wholly owned subsidiary, bonds issued)
**SMITH INTERNATIONAL INCORPORATED** (wholly owned subsidiary, bonds issued)
**SCHLUMBERGER NORGE AS** (wholly owned subsidiary, bonds issued)
**SCHLUMBERGER FINANCE BV** (wholly owned subsidiary, bonds issued)

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Schlumberger Limited (Schlumberger), incorporated in the Netherlands Antilles, is the world's leading oilfield services company supplying technology, information solutions, and project management services. It began oilfield service activities in Sudan in 1977, and its main customers are the Greater Nile Petroleum Operating Company (GNPOC) and Petrodar, both of which have been associated with human rights abuses.

Schlumberger is currently classified as a company that has taken "Substantial Action" under the targeted Sudan divestment legislative model and is thus not subject to the model's divestment measures.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Schlumberger's activities in Sudan, which began in 1977, are primarily related to oilfield service provision, specifically seismic data acquisition, formation evaluation, and sub-surface well construction. It conducts its work on a fee-for-service basis with contracts of limited duration (typically up to three years), and its main customers are the Greater Nile Petroleum Operating Company (GNPOC) and Petrodar, the two major government-created oil consortia in Sudan. Schlumberger reported to CRN that other than several small contracts with Sudapet, Sudan's state-owned oil firm, it does not do business directly with the Government of Sudan.[3]

Currently, the company is involved in a U.S. $8 million project to train future Sudanese oil executives. Most of the training will take place at facilities in southern Sudan in Juba, Malakal, and Wau. However, some of the most qualified students will be sent to receive masters or PhD's in China or Malaysia.[4] Schlumberger increased its operations substantially beginning in 2004. The company's presence grew from 30 employees in 2000 to 546 by 2010. Schlumberger has reported to CRN that that of those 546, 80% are Sudanese, as are all of its 160 contractors and 3 of its 15 consultants.[5]

## POTENTIAL CONCERNS AND RISKS

### General potential for increasing instability and violence following anticipated southern secession in January 2011

There is a history of direct connections between the oil industry and conflict in Sudan. This is particularly true in the context of civil war between Sudan's north and south. It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence.

Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively. The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, the oil industry and its infrastructure have been identified as assets over which the north and south are likely to battle.

### Local instability and potential for violence in Abyei

The Abyei region, where one of Schlumberger's main clients, GNPOC is located, may be a focal point of renewed violence between north and south Sudan. A referendum on whether the Abyei region will fall in the north or the south in the case of secession is scheduled to be held alongside the south's referendum on independence. Residents of Abyei are set to vote on this question in January 2011, but the north and south disagree about whether the nomadic Arab Missiriya tribe should be allowed to participate in that plebiscite. While the north claims the Missiriya, who spend months each year grazing cattle in Abyei, should be included, the south says they should not. The Missiriya, who fear southern secession and that a new international boundary would cost them their access to Abyei's land (and therefore their livelihood) have promised to use force against any who attempt to prevent them from voting. The head of the tribe stated in September 2010, "If they don't meet our demands then we will set everything alight. If that leads to war, then so be it."[6] The Misseriya are heavily armed, and analysts believe unresolved disputes with them or other communities could reignite civil war between Sudan's north and south.

Abyei has already been the site of fighting between the north's Sudan Armed Forces (SAF) and the south's Sudan People's Liberation Army (SPLA). In May 2008, clashes between the SAF and SPLA resulted in the destruction of Abyei town and the displacement of more than 60,000 residents.[7]

In addition to being the site of recent instability and conflict, the Abyei region, which is near the strategically important Heglig and Bamboo fields, is seated in a contested border area.[8] Though the Permanent Court of Arbitration (PCA) ruled in 2009 that the two fields, which account for more than a third of Sudan's revenue, lie outside of Abyei,[9] both northern and southern Sudan claim them as constituent parts of their regions. There is concern that disputes over borders in this area could turn violent absent clear agreements between the north and south.[10]

There is also concern that the Abyei referendum may be delayed, a step that the Sudan People's Liberation Movement (SPLM) sees as a harbinger of a wider referendum delay. In mid-October 2010, the ruling National Congress Party (NCP) stated that the Abyei referendum should be postponed, citing the difficulty of holding the Abyei vote and the southern referendum simultaneously.[11] Salva Kiir, president of the regional Government of South Sudan, stated in October 2010 that, "Delay or denial of the right of self-determination for the people of Southern Sudan and Abyei risks dangerous instability. There is without question a real risk of a return to violence on a massive scale if the referenda do not go ahead as scheduled."[12]

## Impacts of oil activities on local populations

Oil activities in southern Sudan have been associated with human rights abuses against populations living in oil concession areas and negative environmental impacts. During the war fought from 1983 to 2005, security forces associated with oil consortia were linked with numerous human rights violations. These included the forced displacement of and violence against communities in project areas in relation to exploration activities, as well as those undertaken to secure project infrastructure.

Concession areas currently under GNPOC and Petrodar's control were the site of Sudanese government attacks on civilian populations during the civil war. These attacks are said to have been part of a strategy to clear areas for exploration. Government offensives around Block 1 displaced at least 50% of one county's inhabitants, with village clearings involving bombing attacks on civilians and ground attacks by SAF troops and local militias.[13] Villages in the Petrodar concession area suffered similar attacks and displacements.[14]

CRN has held conversations with Schlumberger regarding this context and steps it is taking to be aware of risks as they emerge. Schlumberger has shared with CRN that does not contract on its own for security, but is provided security by consortia while on consortia land and while traveling to and from client locations, such as Heglig (Block 2, GNPOC) and Adar (Block 3, Petrodar). General security arrangements in Sudan have changed since the time of past oilfield security abuses, in particular following deployment of Joint Integrated Units to certain areas.[15] Nevertheless, concerns regarding the potential for security-related abuses remain given the historical links between the two.[16]

Schlumberger agreed to maintain an ongoing dialogue with CRN regarding security issues related to its operations. It also facilitated conversations between Control Risks, its third party security consultant, and CRN in May 2007 and April 2010. Control Risks' employees evaluate Sudan's security situation directly from the ground, often speak the local language, and communicate directly with local populations in and around Schlumberger's areas of operations.

Control Risks informed CRN that it monitors the deployment of security forces in southern Sudan, and looks at the forces' varying reliability, level of discipline, suitability for protecting oil company personnel and assets, and the potential for human rights abuses. It also evaluates the ability of security forces to meet standards such as the Voluntary Principles on Security and Human Rights, as well as the possibility that troop buildups could increase the potential for conflict in oil-rich areas.

Environmental impacts are also known to accompany some oil activities. As recently as November 2006, GNPOC consortium facilities were discharging untreated "produced water," which is extracted alongside crude oil, from their facilities.[17] Produced water is unpotable and cannot be used for human or plant consumption. It is unclear if this discharge of untreated waste water continues, but Unity State residents still believe that the oilfields in the state are causing water pollution and illness. GNPOC responded to these concerns by stating that it has conducted tests that refute such claims and that GNPOC plants comply with international environmental standards.[18]

In both the GNPOC and Petrodar concession areas, oil exploration has affected local residents' ability to access unpolluted water sources for personal and agricultural use. Roads built to service oil installations have shifted the direction of water flows, causing localized droughts and flooding.[19] In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards oil projects and companies.

Control Risks told CRN that it met with local non-governmental organizations, oil consortia representatives, and others in order to monitor on-the-ground sentiment towards Schlumberger projects and consortia. It also confirmed that oil consortia management of environmental and social impacts is a matter of concern, and that discontent, founded or unfounded, stemming from these impacts can be a prominent security threat to companies in southern Sudan.

### Revenue stream

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[20]

Schlumberger has reported to CRN that with the exception of several small contracts with Sudapet, Sudan's state-owned oil firm, it does not do business directly with the Government of Sudan and is not a source of revenue for government entities except with regard to corporate taxes and social contributions.[21] Though Schlumberger may not be contracting directly with government entities, its services do facilitate the functioning of oil-producing consortia. Petrodar, one of Schlumberger's main clients, has some of Sudan's highest producing fields.[22]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

In April 2007, Schlumberger began a dialogue with CRN regarding its operations in Sudan and committed to taking steps that would remove it from consideration for divestment measures under the targeted Sudan divestment legislative model. Under the model, companies that take "Substantial Action" are not subject to divestment measures. "Substantial Action" includes implementing a humanitarian program that is substantial in size and scope in relation to the company's Sudan operations, that benefits one or more of Sudan's marginalized populations, that is undertaken in conjunction with a reputable local or international NGO and/or governmental agency, and that is certified by an independent third party to meet these requirements.

Schlumberger has undertaken humanitarian projects in an internally displaced persons' (IDP) camp in which southern Sudanese and a small number of Darfurians are living temporarily. Developed in consultation with experienced local and international aid agencies and other experts, these projects focus on education and water supply and include the financing and construction management of a primary school and several water wells in the area.

The school opened at the end of June 2008, and its management is assisted by various local and international NGOs to whom Schlumberger introduced the school. As of May 2010, Schlumberger's coordination with a local NGO for the provision of teachers has significantly improved the teacher–pupil ratio. It has also resulted in improved maintenance and expanded use of the school, which now hosts outreach and skills training programs for women. The company has coordinated with Sudan's Ministry of Education (which is intended to eventually take over the school), community committees, and a local non-governmental organization to support the sustainability of the project. The water wells financed by Schlumberger currently serve an estimated 10,000 people.[23]

Schlumberger continues to consult and collaborate with experts and work with local leaders. It has recruited an experienced local Humanitarian Outreach Coordinator to oversee project execution and conduct on-site monitoring. In addition, it took steps to ensure the employment of local community members in the construction process, the hiring of local teachers where possible, and that teachers are pre-accredited or put on accreditation track with Sudan's Ministry of Education.

In January 2008, Schlumberger's third party verifier, Channel Research, traveled to Sudan to evaluate its efforts, and found that the projects underway were supported by the local community and met criteria for "Substantial Action." At Schlumberger's own initiative, Channel Research carried out a more comprehensive impact evaluation of the company's projects. Schlumberger shared this assessment with CRN in April 2009. The assessment includes "lessons learned" and recommendations, noting material evidence of success. In response to questions regarding the projects, Schlumberger submitted to CRN detailed plans, a budget, a list of partnering organizations and milestones, and plans for third party verification by Channel Research.[24]

Schlumberger confirmed to CRN in May 2009 that it had plans underway for adopting a second phase of "Substantial Action." Since then it has funded an in-depth feasibility study exploring ways to accelerate teacher training in South Sudan and is currently in discussions with the international NGO that performed the study with the hope of implementing a substantial pilot project this year. Schlumberger is also exploring the feasibility of other outreach programs closer to its locations and is implementing a ramp-down plan to ready its current school project for greater independence in funding and management. Schlumberger estimates that it will spend between U.S. $200,000 and U.S. $300,000 in 2010 to engage in its "Substantial Action" projects.[25]

## ENGAGEMENT

CRN and Schlumberger have had an ongoing dialogue since April 2007. In particular, CRN and Schlumberger spoke in May 2009 regarding stakeholder concerns, the current state of the company's humanitarian projects in Sudan, and the company's plans for future programs. Schlumberger committed to update CRN on its efforts to employ more southern Sudanese people from the regions in which it operates and to investigate with the intent of improving the practices it has in place to build understanding between itself and the communities in which it operates. It also promised to engage immediately with CRN, should documented examples arise of client-supported or client-led human rights abuses connected demonstrably to oil operations in which Schlumberger is involved. In 2010, Schlumberger reported to CRN on the progress of its "Substantial Action" activities. It also discussed security-related issues and facilitated a conversation between CRN, Schlumberger, and Control Risks, its outside security consultant.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

While Schlumberger has not explicitly labeled it as such, the company has told CRN that it incorporates human rights considerations into its management policies .

### 2. Impact Assessments

Schlumberger has emphasized to CRN that it has risk assessment and management policies in place that incorporate human rights considerations.

While the company has not released information regarding impact assessments conducted for its business activities, Channel Research did carry out a comprehensive impact evaluation of Schlumberger's humanitarian projects which evaluated a variety of potential scenarios and included "lessons learned" and recommendations, noting material evidence of success.[26]

### 3. Human Rights Integration

The company has told CRN that it maps its human rights considerations against the Business Leaders Initiative on Human Rights matrix.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Schlumberger's third party security consultant, Control Risks, monitors the ability of security forces in southern Sudan to meet standards such as the VPSHR.

### UN Global Compact

Schlumberger is not a UNGC participant. However, the company attended the March 2010 meeting in Khartoum hosted by the UN Principles for Responsible Investment (PRI), the UNGC and the Global Compact Sudan Network. It centered on the role of business in contributing to peace and development in Sudan, and participants assisted in drafting a document that attempted to create a common understanding of what constitutes responsible business practice in Sudan.[27]

### EITI

Schlumberger is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

The company has informed CRN that its Executive Risk Committee is kept informed of risks related to its operations in Sudan through the senior head of operations who sits on the committee.[28]

# NOTES: SCHLUMBERGER LTD.

[1] Jeffrey Gettleman, "War in Sudan? Not Where the Oil Wealth Flows," New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

[2] "Sudan-Macroeconomic Policy," African Economic Outlook, August 3, 2010, at http://www.africaneconomicoutlook.org/en/countries/east-africa/sudan/#macro_economic_policy; Paul J. Sullivan and Natalie Nasrallah, "Improving Natural Resource Management in Sudan," p. 3, United States Institute of Peace, June 2010, at http://www.usip.org/resources/improving-natural-resource-management-in-sudan.

[3] Email from Schlumberger's Manager of Global Citizenship to CRN, August 29, 2008.

[4] "Schlumberger in Key Position," Africa Energy Intelligence, September 29, 2010, at http://www.africaintelligence.com/aem/oil/2010/09/29/schlumberger-in-key-position,85584041-art.

[5] Email from Schlumberger's Manager of Global Citizenship to CRN, September 1, 2009.

[6] "Central Sudan tribe warn of war if no referendum vote," Reuters, September 29, 2010 at http://www.reliefweb.int/rw/rwb.nsf/db900sid/MYAI-89S2UE?OpenDocument&rc=1&cc=sdn.

[7] "Sudan: Restore Security in Abyei," Human Rights Watch, July 22, 2008, at http://www.hrw.org/en/news/2008/07/21/sudan-restore-security-abyei.

[8] "More Than A Line: Sudan's North-South Border," p. 19, Concordis International and United States Institute of Peace, September 2010, at http://www.concordis-international.org/files/pdfs/2010_More-than-a-line_Sudan_Report.pdf.

[9] Jurjen van de Pol and Moyiga Nduru, "International Court Redraws Borders of Sudan Region," Bloomberg, July 22, 2010, at http://www.bloomberg.com/apps/news?pid=newsarchive&sid=ap_CMlh1i.jI.

[10] "Sudan: Defining the North-South Border," p.[7], International Crisis Group, September 2, 2010, at http://www.crisisgroup.org/~/media/Files/africa/horn-of-africa/sudan/B75%20Sudan%20Defining%20the%20North-South%20Border.ashx.

[11] "North Sudanese Officials Seek Delay on Oil District Referendum," Voice of America, October 14, 2010, at http://www.voanews.com/english/news/africa/Referendum-Delay-Sought-in-Sudans-Oil-District-104982784.html.

[12] Maggie Fick, "S Sudan president warns of violence over Jan. vote," October 1, 2010, at http://news.yahoo.com/s/ap/20101001/ap_on_re_af/af_south_sudan_4.

[13] "Soil, Oil, and Human Rights:" p. 186-189, Human Rights Watch, November 2003, at http://www.hrw.org/sites/default/files/reports/sudanprint.pdf.

[14] "Unpaid Debt: The Legacy of Lundin, Petronas and OMV in Sudan, 1997-2003," p. 5-7, European Coalition on Oil in Sudan, June 2010, at http://www.ecosonline.org/reports/2010/%5Eindex.html/UNPAID_DEBT_textonlyweb.pdf.html

[15] Joint Integrated Units (JIUs), comprised of both northern and southern troops, were called for under the 2005 Comprehensive Peace Agreement. JIUs have been deployed in certain areas, such as the contested region of Abyei.

[16] Conference call between Schumberger's Manager of Global Citizenship and CRN, February 19, 2010. See also Egbert Wesselink, "Oil Development in northern Upper Nile, Sudan," European Coalition on Oil in Sudan, 2006, at http://www.ecosonline.org/reports/2006/%5Eindex.html/melut.pdf.html; "Unpaid Debt: The Legacy of Lundin, Petronas, and OMV in Sudan, 1997-2003," European Coalition on Oil in Sudan, 2010, at http://www.ecosonline.org/reports/2010/%5Eindex.html/UNPAID_DEBT_fullreportweb.pdf.html.

[17] "Sudan: Post-Conflict Environmental Assessment," p. 150, United Nations Environmental Program, June 2007, at http://postconflict.unep.ch/publications/UNEP_Sudan.pdf.

[18] David McKenzie and Ingrid Formanek, "Pollution fears taint Sudan's oil promise," CNN, December 8, 2009, at http://edition.cnn.com/2009/WORLD/africa/12/07/sudan.oil/.

[19] "Soil, Oil, and Human Rights:" p. 384, Human Rights Watch, November 2003, at http://www.hrw.org/sites/default/files/reports/sudanprint.pdf; "Oil Development in Upper Nile Sudan," p. 22, European Coalition on Oil in Sudan, at http://www.ecosonline.org/reports/2006/%5Eindex.html/ECOS%20Melut%20Report%20final%20-text%20only.pdf.html.

[20] Jeffrey Gettleman, "War in Sudan? Not Where the Oil Wealth Flows," New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1

[21] Email from Schlumberger's Manager of Global Citizenship to CRN, August 29, 2008.

[22] "Revenue of Crude Oil (Jan—Dec) Year 2009," Sudanese Ministry of Finance and National Economy, August 3, 2009, at http://www.mof.gov.sd/topics_show_E.php?topic_id=1# ; "Sudan's production of Dar blend crude to reach 300k bpd," Sudan Tribune, June 17, 2009, at http://www.sudantribune.com/spip.php?article31489.

[23] Conference call between Schlumberger's Manager of Global Citizenship, Control Risks' Senior Head of Middle East and North Africa Desk and CRN, April 28, 2010. Control Risks' scenario analyses are the company's proprietary information and thus CRN has been asked to not distribute them or reproduce their substance in this report.

[24] Id.

[25] Email from Schlumberger's Manager of Global Citizenship to CRN, February 1, 2010.

[26] Conference call between Schlumberger's Manager of Global Citizenship, Control Risks' Senior Head of Middle East and North Africa Desk and CRN, April 28, 2010. Control Risks' scenario analyses.

[27] Email from Schlumberger's Manager of Global Citizenship to CRN, April 9, 2010.

[28] Conference call between Schlumberger's Manager of Global Citizenship, Control Risks' Senior Head of Middle East and North Africa Desk and CRN, April 28, 2010.

COMPANY

# SCOMI GROUP BERHAD

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **MALAYSIA** | **OIL** | **PRIORITY ENGAGEMENT** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**SCOMI OILTOOLS** (majority owned subsidiary with Sudan-related operations)
**KMCOB CAPITAL BERHAD** (majority owned subsidiary, bonds issued)
**SCOMI ENGINEERING BERHAD** (majority owned, publicly traded subsidiary)

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Malaysia-based Scomi Group Berhad (Scomi) is a global services provider, primarily catering to oil and gas industries. The company and its subsidiaries have provided oil drilling supplies and training for Sudanese oil consortia,[3] which have been associated with human rights abuses and environmental degradation.

Scomi's provision of oil exploration supplies and training in Sudan is defined as "Oil-Related Activities" under the targeted Sudan divestment legislative model. Therefore, the company is classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In 2003, Scomi's subsidiary, Scomi Oiltools received a contract from the Greater Nile Petroleum Operating Company (GNPOC) to provide drilling fluids for the consortium's operations in Sudan. In addition, Scomi sent a team of engineers to Sudan,[4] which suggests that the contract had a maintenance or assistance component and may be ongoing.

Between 2003 and 2006, Scomi Oiltools provided drilling fluids for GNPOC and the White Nile Petroleum Operating Company (WNPOC).[5] By 2006, the company reported facilities in Port Sudan, Thar Jath (in the WNPOC concession), and Heglig (in the GNPOC concession).[6] The company appears to have closed these facilities and operates a single office in Khartoum.[7]

In 2008, Scomi Oiltools held trainings in Sudan for operators including WNPOC, GNPOC, Petrodar, Red Sea Petroleum Operating Company (RSPOC) and others.[8] It also trains chemists, engineers and technologists in the field of oil drilling fluid technologies, including training for Sudanese nationals.[9]

## POTENTIAL CONCERNS AND RISKS

### Association with concession-related impacts

As Scomi's only physical presence in Sudan is in Khartoum, it is not involved first-hand in exploration and production activities and is not directly associated with or exposed to some of the oil industry's immediate risks and impacts such as displacement, kidnapping of workers, attacks on facilities, and environmental degradation. It may, however be linked indirectly with these impacts.

Scomi has provided drilling fluids to the GNPOC and WNPOC oil consortia, whose exploration and development activities during the final phase of Sudan's civil war coincided with human rights abuses committed against local populations. This includes government offensives said to have been part of a strategy to clear areas for exploration. Attacks in Block 1 displaced at least 50% of one county's inhabitants, with village clearings involving bombing attacks on civilians, and ground attacks by SAF troops and local militias.[10] Exploration in the Block 5A concession was linked with the deaths of at least 12,000 people and the displacement of another 160,000 during Sudan's civil war.[11]

The usage of Scomi's drilling fluids may also associate the company with harmful environmental impacts known to accompany oil exploration and production activities. Both the GNPOC and WNPOC concessions have been charged with polluting local water supplies, affecting large populations in Unity state.[12]

Oil exploration has affected local residents' ability to access unpolluted water sources for personal and agricultural use. Roads built to service oil installations have shifted the direction of water flows, causing localized droughts and flooding.[13] In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards oil projects and companies.

### Association with key revenue stream to Sudanese government

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and 22 years of civil war between Sudan's north and south.[14]

Scomi may be linked indirectly with facilitating a key stream of revenue to the Sudanese government, given that it is involved with the provision of supplies and training for oil production activities for the GNPOC and WNPOC consortia. These two consortia, which operate in Sudan's Muglad Basin, produce Nile Blend crude oil, the more expensive of Sudan's crude oil varieties.[15] The Muglad Basin's fields continue to be important to Sudan's oil industry, producing up to 200,000 barrels of crude oil per day.[16]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As Scomi provides supplies to oil concessions located in Sudan, the company is considered to have "Oil-Related Activities" under the targeted Sudan divestment legislative model, and is therefore "Scrutinized."

## ENGAGEMENT

CRN sent an initial inquiry requesting dialogue and further information regarding Scomi's Sudan-related operations in 2007. After receiving no reply, CRN followed-up in 2008, which prompted a response from Scomi requesting further information on current U.S. legislation. CRN provided this information in September 2008. Since then CRN has regularly sent Scomi inquiries requesting further information on the company's Sudan-related operations.

Most recently, CRN reached out to Scomi in October 2010 to discuss issues of security, revenue transparency and the upcoming referendum on southern independence scheduled for January 2011 as part of a CRN priority engagement effort. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Scomi has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether Scomi has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

Scomi is not a UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: SCOMI GROUP BERHAD

[1] Jeffrey Gettleman, “War in Sudan? Not Where the Oil Wealth Flows,” New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

[2] “Sudan-Macroeconomic Policy,” African Economic Outlook, August 3, 2010, at http://www.africaneconomicoutlook.org/en/countries/east-africa/sudan/#macro_economic_policy; Paul J. Sullivan and Natalie Nasrallah, “Improving Natural Resource Management in Sudan,” p. 3, United States Institute of Peace, June 2010, at http://www.usip.org/resources/improving-natural-resource-management-in-sudan.

[3] “Our History,” Scomi Group Berhad website, 2004, at http://www.scomigroup.com.my/publish/Km (link no longer available; copy retained by CRN).

[4] Bhupinder Singh, “Scomi’s Upside Potential,” Malaysian Business, December 1, 2003, at http://findarticles.com/p/articles/mi_qn6207/is_20031201/ai_n24906953; “Review of Operations by the CEO,” p.[40], Scomi Group Berhad website, 2003, at http://www.scomigroup.com.my/investor/annual_PDF/SG/2003/Review_of_Operations_CEO.pdf.

[5] “Our History,” Scomi Group Berhad website, 2004, at http://www.scomigroup.com.my/publish/Km (link no longer available; copy retained by CRN).

[6] Arlene D. Espinoza, “KMC Oiltools Sudan—Creating Safety,” p.[39], Focus newsletter, December 2006, at www.scomigroup.com.my/media/Newsletter/Focus%2016.pdf.

[7] See “Scomi Oiltools: Realising Potential in Oilfield Services,” p15, Scomi Group Berhad website, 2008, at http://www.scomigroup.com.my/core/oilfield_intro.asp.

[8] “An Avenue for Exchange,” p. 40, Focus newsletter, 2009, at http://www.scomigroup.com.my/media/Newsletter/focus20.pdf.

[9] “Oilfield Services,” Scomi Oil Tools website, at http://www.scomigroup.com.my/core/research_engine_train.asp.

[10] “Soil, Oil, and Human Rights:” p. 186-189, Human Rights Watch, November 2003, http://www.hrw.org/sites/default/files/reports/sudanprint.pdf.

[11] “Unpaid Debt: The Legacy of Lundin, Petronas and OMV in Sudan, 1997-2003,” p. 5-7, European Coalition on Oil in Sudan, June 2010, at http://www.ecosonline.org/reports/2010/%5Eindex.html/UNPAID_DEBT_textonlyweb.pdf.html.

[12] David McKenzie and Ingrid Formanek, “Pollution fears taint Sudan’s oil promise,” CNN, December 8, 2009, at http://edition.cnn.com/2009/WORLD/africa/12/07/sudan.oil/; Herve Bar, “Sudan’s White Nile marshes threatened by oil pollution,” AFP, November 19, 2009, at http://www.google.com/hostednews/afp/article/ALeqM5iPUAil144ZGXgvAfbzeR3CN61O7A.

[13] “Soil, Oil, and Human Rights:” p. 384, Human Rights Watch, November 2003, at http://www.hrw.org/sites/default/files/reports/sudanprint.pdf; “Oil Development in Upper Nile Sudan,” p. 22, European Coalition on Oil in Sudan, at http://www.ecosonline.org/reports/2006/%5Eindex.html/ECOS%20Melut%20Report%20final%20-text%20only.pdf.html.

[14] Jeffrey Gettleman, “War in Sudan? Not Where the Oil Wealth Flows,” New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

[15] “Sudan Country Analysis Brief,” U.S. Energy Information Administration, September 2009, at http://www.eia.doe.gov/cabs/Sudan/Oil.html;

[16] “Sudan sells Nile blend crude for May at lower discount,” Sudan Tribune, April 4, 2009, at http://www.sudantribune.com/spip.php?article30752; “Revenue of Crude Oil (Jan—Dec) Year 2009,” Sudanese Ministry of Finance and National Economy, August 3, 2009, at http://www.mof.gov.sd/topics_show_E.php?topic_id=1#.

COMPANY

# SHANDONG ELECTRICAL POWER CONSTRUCTION CORPORATION

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **CHINA** | **POWER** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Power projects have the potential to provide a much-needed increase in the production of electricity in Sudan, where only 22% of the population had access to electricity as recently as five years ago.[1] Sudan's National Electricity Corporation (NEC), the government body responsible for the transmission and distribution of electricity in Sudan, states that it endeavors to connect the entire country to a stable electric network by 2030.[2] As of 2007, completed transmission lines primarily connect Khartoum and other major northern cities, leaving most of Sudan's marginalized populations excluded from the benefit of power production projects.[3]

Because the NEC—a subcomponent of Sudan's Ministry of Energy and Mining—is charged with supplying electrical power in Sudan, companies involved in power production projects will most likely be contracting directly with that government body or on government-commissioned projects.

Power projects are underway in dozens of locations, including some regions that have experienced instability in recent years, as well as those that may become increasingly insecure with the anticipated secession of southern Sudan in 2011.

While power production projects—with the exception of certain hydropower projects—are generally not associated with displacement, security concerns, and other serious impacts linked with the extractive sector, companies involved in them may face increasing challenges due to upcoming events in Sudan. It is widely predicted that southern Sudan will secede from the north following a referendum on independence that is scheduled for January 9, 2011. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could trigger conflict between Sudan's north and south.

### Company

Shandong Electric Power Construction Corporation (SEPCO) is a Chinese state–owned enterprise[4] that specializes in engineering, procurement, and construction contracting for electric power projects.[5] The company's involvement in Sudan is linked to its work on the El Gaili Power project.

Because SEPCO is not publicly traded, it does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

SEPCO has completed Engineering, Procurement, and Construction (EPC) work in Sudan for the 3x35 MW El Gaili Power project (also known as Garri, Jaily, and Qarre), although the dates of its involvement are unclear.[6] In June 2005, SEPCO reportedly signed a letter of intention to build a 500 MW coal–fired power plant at Port Sudan and two 300 MW gas–fired facilities for Sudan's National Electricity Commission (NEC). One of the gas–fired plants was to be built in the industrial zone of El Bagair, in the suburbs of Khartoum, and the other at Al Fula (Southern Kordofan).[7] These three projects would represent an investment of U.S. $483.3 million, much of it to be financed by the Export Import Bank of China.[8]

However, there was a reported disagreement between SEPCO and Sudanese authorities regarding the length and nature of the commitment. While the Sudanese government wanted SEPCO to build the power stations under a Build, Operate, and Transfer (BOT) contract, which would require a 25–year involvement on SEPCO's part, SEPCO reportedly felt that the length of such an agreement would expose it to the risk of Sudan's political instability. The company instead proposed a shorter–term EPC contract.[9] CRN has not uncovered evidence that the El Bagair project ever commenced under Shandong's guidance.

SEPCO announced on its website that it signed a contract for a project in Al Fula in early 2007. The Al Fula plant is to contain three sets of oil–fired power generation units and power transforming and transmission lines.[10] However, based on information on SEPCO's website, it is unclear whether the power plants will be 135 or 150 MW.[11]

The transmission lines SEPCO was expected to build for the Al Fula project in 2007 were designed to run from El Obeid to Al Fula.[12] While the stated purpose of the station is to provide power to the entire Kordofan region, the transmission line runs between Northern and Western Kordofan, bypassing marginalized Southern Kordofan.[13]

There were reports in June 2007 that preparation for construction of the Al Fula project officially commenced at a meeting between SEPCO and two of its subsidiaries, Shandong Electric Power Construction Company No. 2 and Shandong Electric Power Engineering and Consulting Institute.[14] However, it remains unclear whether SEPCO's contract for the Al Fula power project ever materialized.

As of November 2010, the NEC website lists an Al Fula steam power project as one of its projects under construction.[15] It states that the project commenced in November 2009, includes three 135 MW steam turbines, and that the engineering firm contracted to implement it is the China National Machinery Import Export Corporation (CMEC). The NEC website does not list any other power projects in Al Fula,[16] which suggests that SEPCO's proposed Al Fula project may not have come to fruition.

SEPCO states on its website that it is implementing a general construction contract for a 500 kV/220 kV substation in Sudan.[17] Details on the location of the substation and the areas and population that are affected by this project are not available.

## POTENTIAL CONCERNS AND RISKS

### Potential for general instability and conflict around January 2011 referendum

While power production projects—with the exception of certain hydropower projects—are generally not associated with displacement, security concerns, and other serious impacts linked with the extractive sector, companies involved in them may face increasing challenges due to upcoming events in Sudan. It is widely predicted that southern Sudan will secede from the north following a referendum on independence that is scheduled for January 9, 2011. The vote is called for under the Comprehensive Peace Agreement (CPA), signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement. The CPA brought an end to 22 years of civil war between Sudan's north and south that had led to the deaths of two million

Sudanese. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

The potential for fall-out from the referendum process holds significant implications for the private sector in Sudan, including companies involved in power production projects. Areas affected by conflict differ significantly from stable operating environments. They exhibit instability, unpredictable conditions, and contexts in which rights violations are ongoing, presenting companies with greater challenges in ensuring they do not infringe on human rights. Not only is it more difficult for companies to do no harm in such settings, but the failure to adhere to standard corporate responsibility practices carries the potential for heightened impacts on communities and on companies themselves.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As of November 2010, SEPCO is not implicated under the targeted Sudan divestment legislative model because it is not publicly traded.

## ENGAGEMENT

Since 2007, CRN has sent regular inquiries requesting dialogue and further information regarding SEPCO's Sudan-related operations. CRN has yet to receive a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

SEPCO has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether SEPCO has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

SEPCO is not a UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: SHANDONG ELECTRICAL POWER CONSTRUCTION CORPORATION

[1] "U.S.$41 Million Project to Connect Ethiopia and Sudan Power Grids, Promote Energy Trade," World Bank, December 20, 2007, at http://go.worldbank.org/82TH8GUBP0.

[2] "Our Vision," National Electricity Corporation, at http://www.necsudan.com/en/home.php.

[3] "Transmission Lines," Dams Implementation Unit, Merowe Dam Project website, at http://www.merowedam.gov.sd/en/transp-lines.html.

[4] "Brief Introduction," Shandong Electric Power Construction Corporation website, at http://www.sepco.net.cn/en/about/jg.asp; "Corporation's Organization," Shandong Electric Power Construction Corporation website, at http://www.sepcc.net/en/about/jg.asp (link no longer available; copy retained by CRN).

5"Our Businesses," Shandong Electric Power Construction Corporation website, at http://www.sepco.net.cn/en/about/yw1.asp.

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[9] Id.

[10] "Sudan Al Fula Project," Shandong Electric Power Construction Corporation website, at http://www.sepcc.net/en/xm/hh3.asp (link no longer available; copy retained by CRN).

[11] Id. and"Overseas Projects," Shandong Electric Power Construction Corporation website, at http://www.sepcc.net/en/xm/ (link no longer available; copy retained by CRN).

[12] "Chinese To Start Work on Al Fula," Africa Intelligence, May 16, 2007, at http://www.africaintelligence.com/ (subscription required; copy retained by CRN).

[13] Id. and "Sudan's Southern Kordofan Problem: The Next Darfur?" International Crisis Group, October 21, 2008, at http://www.crisisgroup.org/~/media/Files/africa/horn-of-africa/sudan/Sudans%20Southern%20Kordofan%20Problem%20The%20Next%20Darfur.ashx.

[14] "Sudan Al Fula Project Technical and Contract Narration Meeting," Shandong Electric Power Construction Corporation website, June 29, 2007, at http://www.sepcc.net/en/news/xx.asp?id=673 (link no longer available; copy retained by CRN).

[15] "Al Fula Steam Power Plant Project," National Electricity Corporation—Sudan website, at http://www.necsudan.com/en/projects_underconstruction2.php.

[16] See Id.

[17] "Overseas Projects," Shandong Electric Power Construction Corporation website, at http://www.sepcc.net/en/xm/ (link no longer available; copy retained by CRN).

COMPANY

# SHANGHAI ELECTRIC GROUP CO.

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **CHINA** | **POWER** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**SHANGHAI POWER TRANSMISSION AND DISTRIBUTION CO. LTD. aka SPTD**
(wholly owned subsidiary with Sudan-related operations)
**SHANGHAI ELECTRIC GROUP FINANCE CO. LTD** (wholly owned subsidiary, bonds issued)
**SHANGHAI MECHANICAL AND ELECTRICAL INDUSTRY CO. LTD.** (majority owned, publicly traded subsidiary)

## CONTEXT OVERVIEW

### Industry

Power projects have the potential to provide a much-needed increase in the production of electricity in Sudan, where only 22% of the population had access to electricity as recently as five years ago.[1] Sudan's National Electricity Corporation (NEC), the government body responsible for the transmission and distribution of electricity in Sudan, states that it endeavors to connect the entire country to a stable electric network by 2030.[2] As of 2007, completed transmission lines primarily connect Khartoum and other major northern cities, leaving most of Sudan's marginalized populations excluded from the benefit of power production projects.[3]

Because the NEC—a subcomponent of Sudan's Ministry of Energy and Mining—is charged with supplying electrical power in Sudan, companies involved in power production projects will most likely be contracting directly with that government body or on government-commissioned projects.

Power projects are underway in dozens of locations, including some regions that have experienced instability in recent years, as well as those that may become increasingly insecure with the anticipated secession of southern Sudan in 2011.

While power production projects—with the exception of certain hydropower projects—are generally not associated with some of the serious impacts linked with the extractive sector, companies involved in them may face increasing challenges due to upcoming events in Sudan. It is widely predicted that southern Sudan will secede from the north following a referendum on independence that is scheduled for January 9, 2011. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could trigger conflict between Sudan's north and south.

### Company

Shanghai Power Transmission and Distribution Co. Ltd. (SPTD), a China–based power company and member of the Shanghai Electric Group Co., Ltd. (SEC), manufactures transmission and distribution equipment.[4] It contracted with the Government of Sudan in 2006 to build five power transformation stations in Sudan.[5] SPTD has "Power Production Activities" as defined by the targeted Sudan divestment legislative model; however more information is required to determine if the company would be considered "Scrutinized" under the model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

SPTD's initial 2006 contract with the Government of Sudan, valued at U.S. $51 million, was one of the largest overseas contracts taken on by a Chinese company that year.[6] The contract also appears to have been the company's first in Sudan.

In August 2007, SPTD announced that it had signed contracts to build four transformer substations at Um Rwaba, El Rahad, El Obeid, and Rabak, all of which are located in northern Sudan.[7] Another report stated it signed a U.S. $34.5 million construction contract to build only three transformer substations.[8] In materials for a 2010 industry exhibition, SPTD listed its involvement as an engineering, procurement and construction contractor for a 165km power transmission line in Sudan.[9]

It is unclear if the company has commenced activities related to any of the above-mentioned contracts. As of November 2010, the website for Sudan's electricity agency, the National Electricity Commission (NEC), does not list any projects with SPTD.[10]

## POTENTIAL CONCERNS AND RISKS

### Potential for general instability and conflict around January 2011 referendum

While power production projects—with the exception of certain hydropower projects—are generally not associated with displacement, security concerns, and other serious impacts linked with the extractive sector, companies involved in them may face increasing challenges due to upcoming events in Sudan. It is widely predicted that southern Sudan will secede from the north following a referendum on independence that is scheduled for January 9, 2011. The vote is called for under the Comprehensive Peace Agreement (CPA), signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement. The CPA brought an end to 22 years of civil war between Sudan's north and south that had led to the deaths of two million Sudanese. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

The potential for fall-out from the referendum process holds significant implications for the private sector in Sudan, including companies involved in power production projects. Areas affected by conflict differ significantly from stable operating environments. They exhibit instability, unpredictable conditions, and contexts in which rights violations are ongoing, presenting companies with greater challenges in ensuring they do not infringe on human rights. Not only is it more difficult for companies to do no harm in such settings, but the failure to adhere to standard corporate responsibility practices carries the potential for heightened impacts on communities and companies.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

While it had "Power Production Activities," more information is required to determine if SPTD is currently classified as "Scrutinized" under the targeted model.

## ENGAGEMENT

Since 2007, CRN has sent regular inquiries requesting dialogue and further information regarding SPTD's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

SPTD has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether SPTD has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

SPTD is not a UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: SHANGHAI ELECTRIC GROUP CO.

[1] "U.S. $41 Million Project to Connect Ethiopia and Sudan Power Grids, Promote Energy Trade," World Bank, December 20, 2007, at http://go.worldbank.org/82TH8GUBP0.

[2] "Our Vision," National Electricity Corporation, at http://www.necsudan.com/en/home.php.

[3] "Transmission Lines," Dams Implementation Unit, Merowe Dam Project website, at http://www.merowedam.gov.sd/en/transp-lines.html.

[4] "Shanghai Power Transmission & Distribution Col. Ltd.: Private Company Information," Business Week, August 13, 2010, at http://investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId=12763392. "Introduction," Shanghai Power Transmission and Distribution Co. Ltd. website, at http://www.sptd.com.cn/egsjj.htm (link no longer available; copy retained by CRN).

[5] "Shanghai PTD Landing a 50-million-USD Deal with Sudan," China Economic Information Network website, June 5, 2006, at http://www1.cei.gov.cn/ce/doc/cen3/200606052709.htm; "Annual Results Announcement for the Year Ended 31 December 2006," Shanghai Electric Group Co., Ltd, at Bloomberg LP.

[6] "Shanghai PTD Landing a 50-million-USD Deal with Sudan," China Economic Information Network website, June 5, 2006, at http://www1.cei.gov.cn/ce/doc/cen3/200606052709.htm.

[7] "Shanghai Power Transmissions & Distribution Co. Ltd. Announces Earnings Results for the First Half of 2007; Signs Contracts of CNY 247.5 Million with China National Machinery & Equipment Import & Export Corporation," Business Week, August 17, 2007, at http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?capId=12763392 (link no longer available).

[8] "Shanghai Power Transmission & Dist. Co. Signs Construction Contract with China National machinery & Equipment Import % Export Corporation," Reuters, November 27, 2007, at http://stocks.us.reuters.com/stocks/keyDevelopments.asp?symbol=600627.SS (link no longer available; copy retained by CRN).

[9] "Shanghai Electric Power Transmission and Distribution Group," China Fair Jordan's website, at http://www.jcpf.net/submitform/exhibit_detail.php?id=367. Although the Exhibitor's List profiles a "Shanghai Electric Power Transmission and Distribution Group," it is most likely that it is referring to SPTD—there does not appear to be an entity called "Shanghai Electric Power Transmission and Distribution Group."

[10] See "Projects Under Construction," National Electricity Commission - Sudan website, at http://www.necsudan.com/en/projects_underconstruction0.php; "Implemented Projects," National Electricity Commission - Sudan website, at http://www.necsudan.com/en/executed_projects.php.

COMPANY

# SNOWY MOUNTAIN ENGINEERING CORPORATION

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **AUSTRALIA** | **POWER** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Hydroelectric projects have the potential to provide a much-needed increase in power production in Sudan, where only 22% of the population had access to electricity as recently as five years ago. Hydroelectricity has been the focus of Sudan's efforts to expand power production in recent years, and the recently completed Merowe Dam has alone doubled Sudan's power capacity. Dam building or expansion projects are underway at the Roseires and Kajbar Dams, and feasibility studies are underway for a number of additional projects.

Given the nature of hydroelectric projects, they also have the potential to exacerbate an important driver of conflict in Sudan: access to land. Dam projects can cause direct displacement at project sites (often of poor or already marginalized groups),[1] alter river flows, and damage downstream ecosystems, wetlands and farmlands, all of which can heighten tensions surrounding access to and use of land.[2] Land is a scarce resource over which disputes erupt frequently. Numerous factors—including growth in human and livestock populations, poor livestock, arboricultural and farming techniques, desertification, and population displacements—increase competition for land. The increasing scarcity of land has aggravated tensions between pastoralists and agriculturalists, which are heightened by an influx of arms. Projects that affect this dynamic have the potential to fuel tensions and even trigger conflicts.

Some projects also run the risk of heightening ethnic tensions, an important factor in many conflicts in Sudan. The lack of transparency around dam projects and the government's heavy-handed approach towards resettlement has given rise to a perception by some affected communities that projects are related to efforts to "Arabize" the regions around the dams. In some cases, these perceptions have led to increased militarization among affected peoples.[3]

In addition to affecting these dynamics, hydropower projects have at times been associated directly with violence against local communities.[4] Upcoming developments in Sudan may present additional challenges for companies involved in hydropower projects. It is widely predicted that South Sudan will secede from the north following a referendum on independence that is scheduled for January 9, 2011. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

The potential for fall-out from the referendum process holds significant implications for the private sector in Sudan, as areas affected by conflict differ significantly from stable operating environments. They exhibit instability, unpredictable conditions, and contexts in which rights violations are ongoing, presenting companies with greater challenges in ensuring they do not infringe on human rights. Not only is it more difficult for companies to do no harm in such settings, but the failure to adhere to standard corporate responsibility practices carries the potential for heightened impacts on communities and companies.

### Company

The Snowy Mountain Engineering Corporation (SMEC) is an Australia–based engineering and consultancy firm which has carried out various projects in Sudan since 1990 and has been involved in the country's hydropower sector since at least 2003.[5]

As it is not publicly traded, SMEC does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In September 2003, SMEC won a contract from Sudan's Ministry of Irrigation and Water Resources to oversee the rehabilitation of the sluice gates of the Roseires Dam, located in Blue Nile State.[6] It appears that this project was finished in 2006.[7]

When the Sudanese government announced plans to heighten the Roseires Dam by 10 meters, SMEC and France-based Coyne et Bellier signed a consultancy agreement to oversee the project.[8] According to the December 2007 agreement, SMEC-Coyne et Bellier's role is to serve as the supervising engineer, to conduct a design review, and prepare contract documents.[9] While Coyne et Bellier has since departed the project, SMEC continues to be involved in the Roseires Dam.[10]

In April 2008, the construction contract for the Roseires Heightening Project was awarded to CCMD, a joint venture composed of China International Water and Electric and Sinohydro.[11] The project will raise the height of the dam by 10 meters, increasing the capacity of the dam's reservoir by four billion cubic meters[12] and displacing twelve villages. Construction on the project began in September 2009 and by June 2010 work was complete on three of the five sluice gates. According to Sudan's Dams Implementation Unit (DIU), SMEC is employed as the engineering consultant for the project, which is scheduled to be finished by mid-2013.[13] Construction on twelve residential cities for the 22,000 people displaced by the project began in October 2010 and is expected to be completed within 16 months.[14]

SMEC's contributions to Sudan's hydropower extend beyond the Roseires heightening project. In early 2009, it was reported that SMEC had been contracted to undertake an Environmental and Social Impact Assessment (ESIA) for three hydroelectric projects on the Nile River north of Khartoum.[15]

SMEC also has stated that it is investigating the hydropower potential of the 'Bahir-el-Jebel' section of the White Nile.[16] This may refer to the portion of the White Nile that flows through Sudan from the Ugandan border to the town of Malakal.[17]

## POTENTIAL CONCERNS AND RISKS

### Potential impact of dam creation on the local environment

Hydroelectric projects in Sudan have historically been problematic. In addition to association with mass forced displacement and human rights violations, they have been linked to negative environmental impacts, including damage to downstream ecosystems and the destruction of nearby farmland.[18] These concerns require that dam and power–related projects be preceded by environmental impact assessments, as stipulated by Sudanese law, and by the World Commission on Dams.[19]

While CRN has not been able to find any information regarding an impact assessment for the Roseires Dam heightening project, it appears SMEC will be conducting ESIAs for three future dams in Sudan. SMEC is expected to provide an ESIA, a resettlement action plan, and an environmental monitoring and management plan to the DIU.[20] It is possible that these assessments are related to the Sudanese government's planned Shereik, Dagash, Mograt, Kajbar or Dal hydroelectric dam projects.[21]

### Potential for local and future instability, violence, and insecurity as a result of the Roseires Dam heightening project

Construction is underway to raise the Roseires Dam by ten meters , which will add more than four billion cubic meters of water to the reservoir[22] and displace approximately 22,000 people in twelve villages.[23] Construction for 12 residential cities for the displaced people has commenced, but raises concerns given inadequate resettlement plans for those displaced by the Merowe Dam. Those communities lost access to their traditional waterline homelands and former livelihoods, and largely rejected as inadequate the compensation and desert resettlement sites offered by the government.[24] Protests over resettlement, compensation, and displacement have led to clashes in which civilians have been killed and arrested by security forces, and affected communities become increasingly militant.[25] There are already concerns about the potential for increased health problems among people displaced by the Roseires project.[26]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As of November 2010, SMEC is not a publicly traded company, therefore it does not fall under the targeted Sudan divestment legislative model.

## ENGAGEMENT

In October 2008, CRN sent an initial inquiry regarding SMEC's Sudan-related activities. As of November 2010, CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

SMEC does not publish a human rights policy but it has committed to the ten principles of the UNGC as well as the eight Millennium Development Goals.[27]

### 2. Impact Assessments

While SMEC has been contracted to conduct environmental and social impact assessment projects in over 40 countries there is no information available on whether it conducts such assessments for its own projects.

### 3. Human Rights Integration

SMEC reports that it is committed to reporting its efforts to incorporate the UNGC's 'ten principles' into its operations.[28]

### 4. Human Rights Tracking and Reporting

SMEC reports that it is committed to reporting its efforts to incorporate the UNGC's 'ten principles' into its operations.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

SMEC has been a UNGC participant since April 14, 2010.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: SNOWY MOUNTAIN ENGINEERING CORPORATION

[1] "Memorandum on the Merowe Dam Project," International Rivers, January 29, 2007, at http://www.internationalrivers.org/chinas-global-role/africa/merowe-dam-sudan/memorandum-merowe-dam-project.

[2] Paul J. Sullivan and Natalie Nasrallah, "Improving Natural Resource Management in Sudan," p. 11, United States Institute of Peace, June 2010 at http://www.usip.org/files/resources/SR242SullivanNasrallah.pdf.

[3] "A Strategy for Comprehensive Peace in Sudan," p. 11, International Crisis Group, July 26, 2007, at http://www.crisisgroup.org/~/media/files/africa/horn-of-africa/sudan/a%20strategy%20for%20comprehensive%20peace%20in%20sudan.ashx.

[4] Id.

[5] "Summary of SMEC Experience in Africa," p.[7], Snowy Mountain Engineering Corporation website, 2006, at http://web.archive.org/web/20070901091851/ http://www.smec.com.au/countryexp/africa/africa_colourm_matrix.pdf.

[6] "10 September 2003," Snowy Mountain Engineering Corporation website, at http://www.smec.com.au/media/latest/SMEC%20Rehabilitates%20Dam%20Gates%20in%20Sudan.htm (link no longer available; copy retained by CRN).

[7] "Summary of SMEC Experience in Africa," p.[7], Snowy Mountain Engineering Corporation website, 2006, at http://web.archive.org/web/20070901091851/http://www.smec.com.au/countryexp/africa/africa_colourm_matrix.pdf.

[8] "SMEC Review," Snowy Mountain Engineering Corporation website, Vol.[8] No. 1, January 2008, at http://www.smec.com.au/media/smecreview/archive/2008/reviewjan08.pdf (link no longer available; copy retained by CRN); "Dam Heightening in Sudan," Snowy Mountain Engineering Corporation website, 2007, at http://www.smec.com.au/highlights/sudan.htm (link no longer available; copy retained by CRN).

[9] "Sudan, China sign $369mln contract to heighten Roseires Dam," Sudan Tribune, April 28, 2008, at http://www.sudantribune.com/spip.php?article26912); "SMEC annual review 2006 - 2007," p.[14], Snowy Mountain Engineering Corporation website, 2007, at http://www.smec.com/Uploads/Documents/SMEC%20Annual%20Review%2006_07_20090305124608.pdf.

[10] Letter from Suez S.A. representatives to CRN, July 14, 2008; "President Attends Graduation of First Batch of Meroe Technological College," Sudan Vision Daily, September 27, 2009, at http://www.sudanvisiondaily.com/modules.php?name=News&file=article&sid=49638.

[11] "Sudan, China sign $396mln contract to heighten Roseires Dam," Sudan Tribune, April 28, 2008, at http://www.sudantribune.com/spip.php?article26912.

[12] "President Al-Bashir Witnesses Signing of Roseires Dam Heightening Contract," Dams Implementation Unit, Roseires Heightening Project website, April 27, 2008, at http://diu.gov.sd/roseires/en/news/newspublish/home.viewdetails.php?news_id=8.

[13] "Increase of Rate of Landfills Implementation and Completion of Rehabilitation of Three Gates at Roseires," Dam Implementation Unit, June 27, 2010, at http://diu.gov.sd/roseires/en/news/newspublish/home.viewdetails.php?news_id=20.

[14] "Inauguration of Work on 12 Residential Cities for the Affected of Al-Roseires Dam," Sudan Vision Daily, October 19, 2010, at http://www.sudanvisiondaily.com/modules.php?name=News&file=article&sid=61857.

[15] "SMEC Review," p.[3], Snowy Mountain Engineering Corporation website, Vol. 9 No. 1, January 2009, at http://www.smec.com/Uploads/Documents/SMECReview_Jan09_20090212120215.pdf.

[16] "Annual Review 2008-2009," p. 45, Snowy Mountain Engineering Corporation website, 2009, at http://www.smec.com/Uploads/Documents/SMEC%20Annual%20Review%2008_09.pdf.

[17] "Bahr al-Jebel," Encyclopaedia Britannica website, at http://www.britannica.com/EBchecked/topic/49058/Bahr-al-Jabal.

[18] "Sudan: UN Rights Expert Urges Suspension to Dam Projects in North," UN News Service, UN News Centre, August 28, 2007, at http://www.un.org/apps/news/story.asp?NewsID=23617&Cr=sudan&Cr1.

[19] Nicholas Hildyard, "Neutral? Against What? Bystanders and Human Rights Abuses: The case of Merowe Dam," p. 7, Sudan Studies, posted on The Corner House website, April 30, 2008, at http://www.thecornerhouse.org.uk/resource/neutral-against-what-bystanders-and-human-rights-abuses-0.

[20] "Organizational Chart," Dams Implementation Unit, Merowe Dam Project website, at http://www.merowedam.gov.sd/en/org-structure.html; "Formation Decrees," Dams Implementation Unit, Merowe Dam Project website, at http://www.merowedam.gov.sd/en/establishment.html.

[21] "Sudan Post-Conflict Environmental Assessment: Freshwater Resources," p. 232, United Nations Environment Programme, June 2007, at http://www.unep.org/sudan/.

[22] "Sudan signs China firms to heighten 280-MW Roseires Dam," HydroWorld.com, April 29, 2008, at http://www.hydroworld.com/index/display/article-display/0250698806/articles/hrhrw/News/Sudan_signs_China_firms_to_heighten_280-MW_Roseires_Dam.html.

[23] Inauguration of Work on 12 Residential Cities for the Affected of Al-Roseires Dam," Sudan Vision Daily, October 19, 2010, at http://www.sudanvisiondaily.com/modules.php?name=News&file=article&sid=61857.

[24] "A Strategy for Comprehensive Peace in Sudan," p. 11, International Crisis Group, July 26, 2007, at http://www.crisisgroup.org/~/media/files/africa/horn-of-africa/sudan/a%20strategy%20for%20comprehensive%20peace%20in%20sudan.ashx.

[25] Id.

[26] "Sudan: Beds, nurses and drugs," Reliefweb website, August 31, 2010, at http://www.reliefweb.int/rw/rwb.nsf/db900SID/MYAI-88V4VM?OpenDocument.

[27] "One SMEC Q2," p. 4, SMEC website, 2010, at http://www.smec.com/Uploads/Documents/One%20SMEC%20Q2_20100623111710.pdf.

COMPANY

# STAR PETROLEUM S.A.

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **SPAIN** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Star Petroleum S.A. (Star Petroleum) is a private oil and gas corporation headquartered in Spain.[3] The company engages in the exploration, development, production, and shipping of petrochemicals, as well as trading, brokerage, and retail activities throughout Africa, Europe, and the Middle East.[4] It has held stakes in Block B, which is situated in an area that has experienced a spike in armed conflict over the past year and a half, and Block E, which extends into South Darfur and straddles a disputed border area, since early 2010. Because Star Petroleum is not publicly traded, it does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In January 2010, Star Petroleum announced that Sudan's National Petroleum Commission (NPC) had awarded it a 20% interest in the Block B consortium, operated by Total SA.[5] It is unclear if this refers to the 20% stake in Block B which has been unassigned since 2007, or represents the purchase of a portion of the concession already held by Block B partners: Total SA, Kuwait Foreign Petroleum Exploration Company (KUFPEC), Sudapet, and Nilepet. Star Petroleum's announcement has yet to be confirmed by the other Block B partners or the Sudanese government.

Total SA and its partners have held rights to Block B since 1980.[6] The consortium suspended its operations in 1985 due to deteriorating security conditions brought on by Sudan's north-south civil war. Since then, the consortium has faced a number of challenges in its attempts to resume exploration. The selection of a company to fill a 20% vacancy in the Block B consortium was, until recently, one of several remaining obstacles preventing the resumption of seismic exploration activities on the block.[7]

Despite Star Petroleum's reported acquisition of a stake, operations in Block B have yet to begin. Sudanese Oil Minister Lual Deng has stated that Total is preparing to resume operations soon, but as of November 2010 the company's plans had not materialized.[8] According to media reports, Total has expressed reluctance to work with Star Petroleum.[9] Once operations in Block B commence, exploration activities will most likely focus on the Jonglei basin and the Pibor and Tali Post areas. During the first year of operations, Total plans to drill one well in Jonglei and acquire additional seismic data on the block. If exploration activities result in the discovery of oil, it would be several years before production operations could begin.[10]

In August 2010, Star Petroleum signed an Exploration and Production Sharing Agreement (EPSA) with Sudan's NPC. The 20-year contract awarded Star Petroleum a 75% stake in Block E, which extends from southern Sudan's Lakes State to South Darfur, straddling the disputed north-south border between Northern Bahr Al Ghazal and South Darfur.[11] The remaining 25% is held by the Norwegian firm Hamla (5%), the national petroleum company Sudapet (10%), and southern Sudan's petroleum company Nilepet (10%). Initial exploration in the block will last three years and cost U.S. $20 million, after which drilling is expected to begin.[12]

## POTENTIAL CONCERNS AND RISKS

### Local insecurity in Jonglei state and general potential for increasing instability, violence, and insecurity following anticipated southern secession in January 2011

Star Petroleum's Block B concession is located in Jonglei state, an unstable area that has experienced increasing violence and insecurity in recent years. Armed conflict during 2009 and 2010 resulted in at least 1,800 deaths,[13] and in July 2009 the United Nations Mission in Sudan (UNMIS) acknowledged "clear grounds for concern about the security situation" in areas within or adjacent to Block B.[14] Intertribal violence in Jonglei State continues in 2010, with at least some of it within Block B.[15] Though recent violence does not appear to be related to oil activities, it could lead to or require the presence or use of security forces in the event Total commences exploration activities.

It is widely predicted that southern Sudan, which holds most of Sudan's oil (and blocks B and E), will secede from the north following a January 2011 referendum on independence. Because the Government of Sudan and the regional Government of South Sudan currently rely on oil for 63% and 98% of their respective revenues, and the regions have not yet stuck an agreement on sharing revenue in the case of southern secession, many fear that January will trigger violence between the north and south. In this context, the oil industry and its infrastructure have been identified as assets over which the north and south are likely to battle.

Of concern is the history of abuses associated with the oil industry during conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. The potential for a return to major conflict between Sudan's north and south raises concerns about a return to this kind of violence and the potential for it to occur in Star Petroleum's concession areas.

Star Petroleum's Block E concession straddles the disputed border between South Darfur and Northern Bahr al Ghazal states.[16] It is possible southern secession would affect the disposition of trans-border oil blocks. Aside from being an oil block, this border area is contested due to its use as a traditional grazing area for the region's residents. Inter-group conflict has yet to be reported in the concession area, but southern Sudanese security forces clashed with local nomads near Block E's northern border in April 2010.[17] Depending on the outcome of a border demarcation process currently underway, similar clashes could necessitate the use of security forces to protect Star Petroleum's exploration activities.

## Potential impacts of exploration activities on local populations

Oil activities in southern Sudan have been associated with human rights abuses against populations living in concession areas, and there is a risk such abuses may be repeated, especially in the context of renewed conflict in Sudan. Environmental impacts are also known to accompany some oil activities. This includes the pollution of surface and groundwater sources.[18] Oil exploration has affected local communities' ability to access unpolluted water sources for personal and agricultural use, and roads built to service oil installations have shifted the direction of water flows, causing localized droughts and flooding.[19] In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards oil projects and companies.

Star Petroleum has yet to release the terms of its Block B ESPA, but its operations would likely be subject to Total's EPSA, which according to Total "[takes] account of new international standards, in particular with regard to corporate social responsibility."[20] Total has identified numerous steps it is taking in preparation for exploration activities to address the potential negative effects of oil exploration. It is unclear whether Star Petroleum is involved in these steps, which include performing environmental and social impact assessments in advance of anticipated seismic and drilling operations, holding dialogue with local residents and authorities on the use of an operating base in the Bor region, and holding talks with local non-governmental organizations regarding needed socioeconomic programs.[21]

## Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[22] If Block B enters production (and revenues from southern concessions continue to flow to the Government of Sudan), Star Petroleum may be tied directly to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in the Darfur region or in a potential conflict with Sudan's south.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement.[23]

Though Star Petroleum's concessions are in the south, oil produced by the concessions would rely on northern infrastructure for export, meaning associated revenue would likely be subject to any revenue sharing agreement struck between the Government of Sudan and the Government of South Sudan. Transparency in revenue reporting—by companies and the government—has been identified as key to actualizing an agreement, in addition to being critical for reducing corruption, poverty and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[24]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Star Petroleum is not a publicly traded company, and therefore does not fall under the targeted Sudan divestment legislative model.

## ENGAGEMENT

CRN sent an initial inquiry in September 2009 regarding Star Petroleum's Sudan-related activities. As of November 2010, CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Star Petroleum has not published a stand-alone human rights policy, but its website states that several core values guide the company's operations. These include "respect for people, cultures, and traditions," as well as "build[ing] trust with stakeholders." The company does not define these terms in relation to international human rights norms.

### 2. Impact Assessments

No information is available on whether Star Petroleum has conducted impact assessments to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Star Petroleum is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

Star Petroleum is not a UNGC participant.

### EITI

Star Petroleum is not a member of the EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

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COMPANY

# SUDAN PETROLEUM CORPORATION

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **SUDAN** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Sudapet, established in 1997, is wholly owned by the Sudanese government's Ministry of Energy and Mining.[3] Sudapet holds stakes in all of Sudan's oil concessions, and is also involved in the processing and sale of Sudanese crude oil. These extensive operations associate Sudapet with numerous concerns, including harmful environmental and social impacts linked to exploration and production activities and insecurity in concession areas. As the company is not publicly traded, Sudapet does not fall under the targeted Sudan divestment legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Upon its incorporation, Sudapet held a 10% stake in Block B, which was initially awarded to a consortium including Total SA and KUFPEC in 1980.[4] Operations in the block were suspended in 1985 due to Sudan's north-south civil war and have yet to resume.[5]

Sudapet has a 5% stake in the Block 6 concession, alongside its partner, the China National Petroleum Corporation (CNPC). Block 6 currently produces an estimated 40,000 barrels of Fula blend oil per day.[6] The company also holds a 5% operating stake in the Greater Nile Petroleum Operation Company (GNPOC), operating oil blocks 1, 2 and 4 in and around the contested Abyei region.[7] GNPOC's oil fields produced an estimated 180,000 and 200,000 barrels per day (bpd) during the first half of 2009.[8]

In February 1997, Sudapet gained a 7% stake in the White Nile Petroleum Operating Company (WNPOC), which operates Block 5A.[9] The block's current output, primarily from the Thar Jath and Mala oil fields, is currently estimated at between 20,000 and 25,000 bpd.[10]

In 2000, Sudapet gained rights to an 8% stake in the Petrodar consortium, which operates blocks 3 and 7 in Upper Nile State. Petrodar's fields produce an estimated 200,000 barrels of Dar Blend crude per day.[11]

In May 2001, Sudapet acquired a 7% operating stake in Block 5B.[12] Lundin Petroleum, Petronas, and ONGC Videsh Limited (OVL) relinquished their stakes there in 2009, following several failed exploration efforts.[13] The WNPOC consortium was replaced by the Moldovan company Ascom and it is unclear if Sudapet kept its stake in the block.[14]

Sudapet acquired operating stakes in several exploration blocks in 2003, including a 15% stake in the Block 8 consortium operated by WNPOC,[15] which may contain natural gas reserves.[16] In September 2010, it was reported that Sudapet was looking to increase its stake by 26% with the goal of gaining control of the Block 8 concession.[17]

In 2003, Sudapet gained a 42% stake in the Block C concession held by the Advanced Petroleum Company (APCO). A joint venture of Sudanese companies including HTPG, Sudapet, Khartoum State, and Higleig Petroleum Service & Investment,[18] APCO has conducted unsuccessful exploration activities in the block.[19] In July 2010, Sudapet expressed plans to review the block's exploration history in order to find hydrocarbons.[20]

Also in 2003, Zaver Petroleum and Sudapet formed the Sudapak joint venture.[21] Through Sudapak, Sudapet holds a 15% stake in Sudan's Block 9 oil concession, which remains under exploration.[22]

One year after gaining the stake in Block 9, Sudapak was granted exploration rights for adjacent Block 11 in 2004.[23] Sudapet holds a 15% stake in the consortium. As of March 2010, ongoing exploration had yet to result in oil discoveries in the block.[24] At the same time of its acquisition of a stake in Block 11, Sudapet also acquired a 17% stake in the Block A concession, fully located in southern Sudan, including portions in Jonglei state.[25] As of March 2010, Block A is under exploration.[26]

In 2005, Sudapet acquired a 15% stake in the Red Sea Petroleum Operating Company (RSPOC), which operates Block 15 off the shore of Red Sea state. A 25-year contract governing Block 15 provides for a six- year exploration period, which is underway.[27] The first of two offshore wells was drilled in February 2010.[28]

In 2006, Sudapet was awarded a 34% stake in the Block 17 concession, alongside the Yemen-based Ansan Wikfs Investments Limited (Ansan Wikfs). Lying primarily in Darfur but extending into the neighboring state of South Kordofan, Block 17 was created from a portion of Block 6 that had been relinquished by CNPC.[29] In October 2010, it was reported that parts of South Darfur in and around Block 17 were under exploration.[30]

Sudapet also acquired a 20% stake in Block 12A in 2006, which extends from upper North Darfur to the Libyan border.[31] The block is operated by the Greater Sahara consortium, comprised of Sudapet, Abdel Hadi Abdullah Al-Qahtani & Sons Group of Companies, Ansan Wikfs, Sudan's Hi–Tech Petroleum Group Co. Ltd., Dindir Petroleum International, and the All Africa Investment Corp.[32] According to satellite photos commissioned by the UK-based non-governmental organization Global Witness, Block 12A was under exploration in late 2009 and early 2010.[33]

The third concession stake gained in 2006 was 20% of the Block 14 concession, located in Sudan's far north.[34] Sudapet's initial entry into this block was alongside South Africa's PetroSA, but the latter company relinquished its stake in 2009.[35] In 2010, the Finnish firm, Fenno Caledonian and an unnamed Turkish firm have obtained rights to Block 14.[36] It is unclear whether Sudapet continues to hold a stake in the block.

Alongside partners including PT Pertamina, Dindir Petroleum, CNPC, Africa Energy, and Express Petroleum, Sudapet has been a stakeholder in Block 13 since 2007.[37] The block's operator, the Coral Petroleum Operating Company (CPOC), has engaged in previous gravity prospecting operations in the block, but has yet to begin oil production.[38]

Sudapet gained stakes in several new exploration blocks in 2010. In August, the company signed an agreement with Spain's Star Petroleum, in which Sudapet gained a 10% stake in Block E. Initial exploration in the block is expected to cost U.S. $20 million dollars and last three years, after which drilling is expected to begin.[39] At the same time, Sudapet acquired 15% of Block 10 in northeastern Sudan alongside Fenno Caledonian, which holds the remaining 85%.[40]

Sudapet's operations extend beyond its interests in oil concession blocks. The company regularly trades Nile and Dar blend with foreign companies.[41] It also holds a 50% interest in the Khartoum refinery, held jointly with CNPC.[42] In November 2009, CNPC and Sudapet signed an agreement to double the refinery's capacity and increase the country's production of refined fuels.[43]

Part of Sudapet's long-term goals appear to be aimed at expanding its global footprint. So far, the company has discussed a yet to be completed oil field swap with PT Pertamina, in which it would acquire stakes in Indonesian oilfields in exchange for stakes in Sudanese concessions.[44] Sudapet also signed a cooperation agreement with PetroVietnam, allowing the two companies to jointly pursue investments in Sudan, Vietnam, and other locations.[45] It also has expressed interest in acquiring concessions in Iraq's small or medium-sized oil fields.[46]

## POTENTIAL CONCERNS AND RISKS

Given Sudapet's extensive involvement in the Sudanese oil industry, the company is exposed to multiple risks and concerns associated with oil development. For more detailed information on these various threats, please consult the profiles associated with Sudapet's consortium partners, such as CNPC and Petronas.

### General potential for increasing instability and violence following anticipated southern secession in January 2011

There is a history of direct connections between the oil industry and conflict in Sudan. This is particularly true in the context of civil war between Sudan's north and south. It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively. The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, the oil industry and its infrastructure have been identified as assets over which the north and south are likely to battle.

### Impacts of oil activities on local populations

Oil exploration in Sudan has been associated with human rights abuses against populations living in oil concession areas. During the war fought from 1983 to 2005, security forces associated with certain oil consortia were linked with numerous human rights violations. These included the forced displacement of and violence against communities in project areas, in relation to exploration activities as well as those undertaken to secure project infrastructure. Concession areas currently under the control of the GNPOC, WNPOC and Petrodar were the location of Sudanese government attacks on civilian populations during the civil war.

## Impact of oil exploration on local environment

Environmental impacts are also known to accompany some oil activities. As recently as November 2006, GNPOC consortium facilities were discharging untreated "produced water," which is extracted alongside crude oil.[47] Produced water is unpotable and cannot be used for human or plant consumption. It is unclear if this discharge of untreated waste water continues, but Unity State residents still believe that oilfields in the state are causing water pollution and sickness. GNPOC has responded to these concerns by stating that it has conducted tests that refute such claims and that GNPOC plants comply with international environmental standards.[48]

In both the GNPOC and Petrodar concession areas, oil exploration has affected local residents' ability to access unpolluted water sources for personal and agricultural use. Roads built to service oil installations have shifted the direction of water flows, causing localized droughts and flooding.[49] In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards oil projects and companies.

## Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[50] As Sudapet is a state-owned company, it is tied directly to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement.[51] The CPA brought an end to 22 years of civil war between Sudan's north and south, which had led to the deaths of two million Sudanese.

Sudapet's concessions in southern Sudan are subject to a revenue sharing agreement with the south. Transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[52]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Sudapet not a publicly traded company, and therefore does not fall under the targeted Sudan divestment legislative model.

## ENGAGEMENT

Since 2008, CRN has repeatedly requested dialogue and information regarding Sudapet's operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Sudapet has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

There is no information available on Sudapet conducting human rights or environmental impact assessments on its projects.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Sudapet is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

Sudapet is not a UNGC participant.

### EITI

Sudapet is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: SUDAN PETROLEUM CORPORATION

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COMPANY

# TAMOIL

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **LIBYA** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Tamoil is a private oil and gas company owned by the government of Libya.[3] The company is a partner with Gabon-based Petrolin Group (Petrolin) in the All Africa Investment Corporation's (AAIC) joint venture in Sudan, which holds a stake in the Block 12A oil concession in the sensitive Darfur region.[4] As the Tamoil is not publicly traded, it does not fall under the targeted legislative model.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In 2006, Petrolin and Tamoil, operating as AAIC, acquired a 5% stake in Block 12A, which extends from upper North Darfur to the Libyan border.[5] The block is operated by the Greater Sahara consortium, comprised of Abdel Hadi Abdullah Al-Qahtani & Sons Group of Companies (Al-Qahtani & Sons; 33%), Yemen's Ansan Wikfs Investments Limited (Ansan Wikfs; 20%), Sudapet (20%), Hi–Tech Petroleum Group Co. Ltd (7%), and Dindir Petroleum International (Dindir Petroleum; 15%).[6] The companies paid U.S. $43 million to acquire drilling rights in Block 12A.[7] According to satellite photos commissioned by the UK-based non-governmental organization Global Witness, Block 12A was under exploration in late 2009 and early 2010.[8]

## POTENTIAL CONCERNS AND RISKS

### General potential for increasing instability and violence following anticipated southern secession in January 2011

There is a history of direct connections between the oil industry and conflict in Sudan. This is particularly true in the context of civil war between Sudan's north and south. It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence, and the oil industry and its infrastructure might be assets over which the north and south will battle.

### Risk of violence in association with oil exploration activities

Oil activities in southern Sudan have been associated with human rights abuses against populations living in concession areas, and there is a risk such abuses may be repeated, especially in the context of renewed conflict in Sudan. During the civil war fought between Sudan's north and south from 1983 to 2005, security forces associated with certain oil consortia were linked with numerous human rights violations, including forced displacement and violence against communities in project areas.

It appears that the Sudanese military has used force to secure concession areas in advance of Tamoil's exploration activities in Block 12A.[9] In August 2008, Sudan Armed Forces launched major military operations against rebels in North Darfur, where foreign teams were reportedly engaged in exploration activities.[10]

This risk is exacerbated by the rebel Justice and Equality Movement's (JEM) opposition to oil exploration in Darfur while the conflict is ongoing. As JEM has kidnapped oil workers in the past, this may increase the risk that Tamoil's employees will be targeted by rebels operating throughout Darfur.

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[11] If Block 12A enters production, Tamoil might be tied to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south. Such a revenue stream would be even more material to the Sudanese government in the case of southern secession, given that the north stands to lose 60% to 75% of its revenue in that scenario.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement (SPLM).[12]

As Tamoil's concession is in Sudan's north, any revenue it produced likely would not be subject to a revenue sharing agreement struck between the Government of Sudan and an independent south. Nevertheless, transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[13]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As of November 2010, Tamoil is not implicated under the targeted legislative model because it is not publicly traded.

## ENGAGEMENT

CRN has sent regular inquiries since 2007 requesting dialogue and further information regarding Tamoil's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Tamoil has not published a human rights policy or referenced key human rights norms in its materials.

### 2. Impact Assessments

No information is available on whether Tamoil has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Tamoil is not a VPSHR participant, and its materials do not otherwise indicate support for the principles.

### UN Global Compact

Tamoil is not a UNGC participant.

### EITI

Tamoil is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: TAMOIL

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COMPANY

# TOTAL SA

| COUNTRY | SECTOR | CRN CLASSIFICATION |
| --- | --- | --- |
| **FRANCE** | **OIL** | **PRIORITY ENGAGEMENT** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**INACTIVE BUSINESS OPERATIONS**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**TOTAL KENYA LTD.** (majority owned, publicly traded subsidiary)
**TOTAL CAPITAL** (wholly owned subsidiary, bonds issued)
**TOTALFINAELF** (wholly owned subsidiary, bonds issued)
**TOTAL GABON** (majority owned, publicly traded subsidiary)
**TOTAL NIGERIA PLC** (majority owned, publicly traded subsidiary)

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses – including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands – were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Total SA (Total), a France-based company, has owned rights to Block B since 1980. It holds a 32.5% stake as Block B's operator, but is not currently involved in exploration or production activities. The company is therefore considered to have "Inactive Business Operations" under the targeted Sudan divestment legislative model.

Total's concession is situated fully within southern Sudan and sits mostly in Jonglei State, where a spike in armed conflict during 2009 and 2010 led the United Nations Mission in Sudan (UNMIS) to acknowledge "clear grounds for concern about the security situation" in certain areas within or adjacent to Block B.[3] Clashes in Jonglei state in 2009 (which do not appear to have been oil-related) resulted in at least 1,800 deaths and have continued in 2010.[4] Total has stated an intention to initiate exploration activities in Block B in the near future.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Total has owned rights to Sudan's Block B since November 1980, when it secured a 32.5% stake through its subsidiary, Total E&P Soudan. At that time, Total's consortium partners were Marathon Petroleum Sudan Limited, a wholly-owned subsidiary of U.S.-based Marathon Oil Company (32.5%), KUFPEC Sudan Ltd, subsidiary of Kuwait Foreign Petroleum Company (25%), and Sudan's state oil company, Sudapet (10%).[5]

The consortium suspended field operations in 1985 due to deteriorating security conditions related to Sudan's north-south civil war, but retained rights to the block through an annual renewal fee of U.S. $1 million paid to the Government of Sudan.[6]

In December 2004, Total renegotiated the terms of the Exploration and Production Sharing Agreement (EPSA) for Block B, which now states that "the Parties shall mutually agree upon a Resumption Date when the petroleum operations can be undertaken physically in the contract area."[7]

Total has yet to resume operations on Block B despite the January 2005 signing of the Comprehensive Peace Agreement that ended Sudan's north-south civil war. Until June 2007 this was due to a legal dispute with UK-based White Nile Limited, to whom the regional Government of South Sudan had awarded rights for Block Ba, a 67,500 square kilometer section of the larger Block B, where Total retained a stake through its agreement with the Government of Sudan.[8]

In June 2007, Sudan's National Petroleum Commission (NPC) resolved the dispute in Total's favor and issued a resolution cancelling White Nile Limited's contract with the Government of South Sudan.[9] As part of a settlement announced by the NPC in August 2009, the Block B consortium must pay White Nile Limited, now operating as Agriterra, £11 million in reimbursement for the work it had carried out on the block.[10]

In addition to resolving the dispute between Total and White Nile, the NCP's 2007 resolution defined the constitution of the new Block B consortium after the withdrawal of Marathon Oil Company.[11] Total is to retain its 32.5% stake in Block B, KUFPEC Sudan to increase its stake to 27.5%, Sudapet to retain its 10%, 10% is to be awarded to the Government of South Sudan's Nile Petroleum Corporation (Nilepet), and the remaining 20% will be awarded to a new company selected jointly by Total, KUFPEC, the Government of Sudan, and the Government of South Sudan. Under the agreement, South Sudan's president, Salva Kiir, is to give the final approval for the choice of the new company.[12]

Mubadala Development Company (Mubadala), a commercial conglomerate owned wholly by the Emirate of Abu Dhabi, was linked to Block B's vacant 20% until August 2009, when the NPC revoked its offer due to Mubadala's failure to finalize the transaction.[13] Star Petroleum, a private Luxemburg-based company, announced in January 2010 that the NPC had selected it to take the remaining 20% interest in the Block B consortium.[14] Despite this announcement, which does not appear to have been confirmed by Block B's other partners, exploration in Block B has yet to begin. Total has reportedly expressed reluctance to work with Star Petroleum, and though Sudanese Oil Minister Lual Deng has stated that Total is preparing to resume operations soon, it has not done so as of November 2010.[15]

In September 2009, the NPC determined that Total must begin exploration in Block B as soon as the consortium is restructured.[16] Total has said its plans to recommence exploration are subject to this restructuring and the resolution of a number of other outstanding issues.[17] In April 2010, Total chief executive Christophe de Margerie said that the political situation between northern and southern Sudan is still too unclear to begin exploration.[18]

Once it does commence operations, Total's exploration activities will most likely focus on the Jonglei basin and the Pibor and Tali Post areas. During the first year of operations, Total plans to drill one well in Jonglei and acquire additional seismic data on the block. If exploration activities result in the discovery of oil, it would be several years before production operations could begin.[19]

CRN has focused its discussions with Total on the company's status in Block B, but has discussed other issues as well. In August 2008, CRN inquired about reports that Total's oil trading arm purchased two 600,000-barrel cargoes of Sudan's Nile Blend Crude from Sudapet, Sudan's national oil company.[20] A Total representative confirmed to CRN that this contract was cancelled.[21]

## POTENTIAL CONCERNS AND RISKS

### Local insecurity in Jonglei state and general potential for increasing instability, violence, and insecurity following anticipated southern secession in January 2011

Total's concession is located in Jonglei state, an unstable area that has experienced increasing violence and insecurity in recent years. Armed conflict during 2009 and 2010 resulted in at least 1,800 deaths,[22] and in July 2009 the United Nations Mission in Sudan (UNMIS) acknowledged "clear grounds for concern about the security situation" in areas within or adjacent to Block B.[23] Intertribal violence in Jonglei State continues in 2010, with at least some of it within Block B.[24] Though recent violence does not appear to be related to oil activities, it could lead to or require the presence or use of security forces in the event Total commences exploration activities.

It is widely predicted that southern Sudan, which holds most of Sudan's oil (and Total's concession), will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively. The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, the oil industry and its infrastructure have been identified as assets over which the north and south are likely to battle.

Of concern is the history of abuses associated with the oil industry during conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. The potential for a return to major conflict between Sudan's north and south raises concerns about a return to this kind of violence and the potential for it to occur in Total's concession area.

Total has stated to CRN that it intends to train all employees in Sudan in human rights standards, with reference to the Voluntary Principles on Security and Human Rights, and to require the same training for companies with which it contracts in Sudan. It also plans to negotiate for security forces provided by the Sudanese government to undergo similar training. Dialogue in this regard is reportedly ongoing.[25]

### Potential impacts of exploration activities on local populations

Oil activities in southern Sudan have been associated with human rights abuses against populations living in concession areas, and there is a risk such abuses may be repeated, especially in the context of renewed conflict in Sudan. Environmental impacts are also known to accompany some oil activities. This includes the pollution of surface and groundwater sources.[26] Oil exploration has affected local communities' ability to access unpolluted water sources for personal and agricultural use, and roads built to service oil installations have shifted the direction of water flows, causing localized droughts and flooding.[27] In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards oil projects and companies.

In preparation for the resumption of exploration activities, Total has identified numerous steps it is taking to address potential negative effects of oil exploration. These include holding dialogue with local residents and authorities on the use of an operating base in the Bor region, performing environmental and social impact assessments in advance of anticipated seismic and drilling operations, and holding talks with local non-governmental organizations regarding needed socioeconomic programs.[28]

Total has budgeted for and states that it is committed to implementing a human rights policy that takes into account affected local populations. This policy is to be run concurrently with the start of seismic data acquisition or oil drilling in Sudan, and Total has stated that it intends these policies to focus on humanitarian projects ranging from local community building to de-mining the region (where unexploded, buried mines remain from the north-south civil war) and improving local infrastructure.[29]

In 2004, Total renegotiated the Exploration and Production Sharing Agreement (EPSA) governing Block B. It now states that "the Parties shall mutually agree upon a Resumption Date when the petroleum operations can be undertaken physically in the contract area," and, according to Total, "[takes] account of new international standards, in particular with regard to corporate social responsibility."[30]

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[31] If Block B enters production (and revenues from southern concessions continue to flow to the Government of Sudan), Total may be tied directly to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in the Darfur region or in a potential conflict with Sudan's south.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement.[32]

Though Total's concession is in the south, oil produced by the concession would rely on northern infrastructure for export, meaning associated revenue would likely be subject to any revenue sharing agreement struck between the Government of Sudan and the Government of South Sudan. Transparency in revenue reporting—by companies and the government—has been identified as key to actualizing an agreement, in addition to being critical for reducing corruption, poverty, and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[33]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Currently, Total is considered to have "Inactive Business Operations" under the targeted Sudan divestment legislative model, which defines this as "the mere continued holding or renewal of rights to property previously operated for the purpose of generating revenues but not presently deployed for such purpose."[34]

Companies with "Inactive Business Operations" are not subject to the targeted model's divestment requirements. However, Total's categorization under the model will require re-evaluation if and when it resumes exploration activities in Sudan.

It is possible that Total already has underway certain activities that would qualify as "Substantial Action" under the targeted Sudan divestment legislative model, and therefore exempt it from divestment measures in the case it does resume active operations. In conjunction with a number of organizations, including the European Coalition on Oil in Sudan and the Collaborative for Development Action (CDA), Total has carried out a series of impact assessments to inform the selection of humanitarian and development projects aimed at benefiting local communities. The company has previously been in dialogue with community leaders in Bor (near where it plans to begin exploration activities) to discuss compensation and more immediate humanitarian and infrastructure projects.[35]

## ENGAGEMENT

CRN began dialogue with Total in February 2007 regarding the company's Sudan-related business, steps it might take to address stakeholder concerns, and the implications of U.S. legislation. CRN and Total met in Washington, D.C. in October 2007 and May 2009, and in Paris, France in April 2008. In May 2010, Total provided updated information on the state of its Sudan-related business and humanitarian projects.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Total does not have a stand-alone human rights policy, but states explicitly in its Code of Conduct and Business Principles that it "strives to uphold" the Universal Declaration of Human Rights, the key conventions of the International Labour Organization, the OECD Guidelines for Multinational Enterprises, and the principles of the United Nations Global Compact.[36]

Total also states that it expects suppliers, service providers, and business partners to adhere to principles compatible with its own, and that it does not remain in countries in which it would not be able to apply its Code of Conduct. With respect to governments in host countries, it states in its Code of Conduct that it does not interfere in sovereign politics, but reserves the right to express its position concerning its belief in the importance of respecting human rights.[37]

Human rights area also referenced in Total's Corporate Security Policy Statement, which states that the company must implement security policies and procedures "according to the Universal Declaration of Human Rights, the international and national laws, and the Voluntary Principles on Security and Human Rights."

Total has also stated to CRN that it intends to train all employees in Sudan in human rights standards and to require the same training for companies with which it contracts in Sudan.

### 2. Impact Assessments

In compliance with its Safety, Health, Environment, Quality Charter, Total follows an environmental and social risk assessment that covers the entire life cycle of all projects it undertakes. The company has stated that it intends to perform environmental and social impact assessments in advance of anticipated seismic drilling operations in Sudan.

### 3. Human Rights Integration

Total has taken multiple efforts to integrate human rights principles into company practices. On the 60th anniversary of the Universal Declaration of Human Rights, Total conducted an in-house awareness campaign at its main Paris area sites.

The company states that all of its ethics process presentations include information on human rights and relevant procedures that Total has put in place. By 2010, Total had conducted 35 of these annual presentations. The company has also implemented employee human rights trainings into its worldwide sessions.

Information on human rights, including company documents and international frames of reference are available on Total's Ethics intranet site. To better educate employees about human rights and security risks, specifically in regard to the Voluntary Principles on Security and Human Rights (VPSHR), Total has created a website describing the company's priorities for implementing the VPSHR. Employees also have access to a dedicated slate of practical exercises.

Total also offers its employees the opportunity to attend human rights trainings, including seminars covering business and human rights, the VPSHR, and the company's ethical, environmental and social responsibilities. The seminar on the VPSHR uses a Human Rights Training Toolkit aimed at the oil and gas industries to educate employees. As of 2010, Total had conducted four of these seminars.

A program developed by CDA Collaborative Learning Projects, which strives to educate multinationals on how their activities impact regions affected by sociopolitical pressures and conflicts has also been incorporated into Total's operations.

### 4. Human Rights Tracking and Reporting

Total reports annually on its social responsibility and environmental progress in its Environment and Society report, which covers human rights principles, commitments and actions. Total also reports on its actions in support of the UNGC's principles in its Corporate Social Responsibility Report. The company also publishes a practical handbook entitled Corporate Social Reporting Protocol and Method for social indicators that incorporates many of its human rights implementation procedures.

On its website, Total also publishes how its activities align with indicators laid out by the Global Reporting Initiative (GRI). Total also provides information on how its activities align with human rights reporting indicators created by the International Petroleum Industry Environmental Conservation Association (IPIECA).

Since 2002, Total's Ethics committee has worked with GoodCorporation to conduct ethical assessments of the Code of Conduct's application using 87 evidence points. Approximately 25% of this assessment spans human-rights related issues.

In 2009, an assessment tool on Total's compliance with human rights standards was created and tested in partnership with the Danish Institute for Human Rights. The tool is based on the Universal Declaration of Human Rights, and covers civil and political rights, economic and social rights, and the right to development. The assessment tool is currently being tested and is intended to serve as a supplement to the assessments carried out by GoodCorporation.

## RELEVANT POLICIES & PRACTICES

### Voluntary Principles on Security & Human Rights (VPSHR)

Total is not a VPSHR participant, but it acknowledges support for and adherence to the VPSHR on its website and in its Corporate Security Policy Statement, which also states that "security policies and procedures must be implemented according to the Universal Declaration of Human Rights." The company launched VPSHR training in 2005 and has since expanded it. By 2010, Total had made three special presentations specifically related to the VPSHR.

Total has stated to CRN that it intends to train all employees in Sudan on the VPSHR and to require the same training for companies with which it contracts in Sudan. The company also plans to negotiate for security forces provided by the Sudanese government to undergo similar training.[38]

## UN Global Compact

Total has been a UNGC participant since 2002, and it states explicit support for the UNGC's ten principles in its Code of Conduct.

At CRN's suggestion, Total sent a representative to the inaugural meeting in Khartoum establishing a local UNGC Sudan Network. Several Total staff attended the UNGC's Sudan Network conference in May 2010. Total also participates in the work of the Global Compact Human Rights Working Group.

## EITI

Total joined the EITI upon its creation in 2002 and became a permanent member of the EITI Board in 2009.

## Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

Total has an Ethics Committee which is comprised of a Chairman and four other employees. It reports to the Chief Executive Officer, is responsible for general oversight of ethical issues, and is tasked with, among other things, notifying divisions of any risk that company activities may be contested on ethical grounds. Total's Ethics Charter states that the company "stands for" the Universal Declaration of Human Rights, the key conventions of the International Labour Organization, the OECD Guidelines for Multinational Enterprises, and the principles of the United Nations Global Compact. The Committee submits an annual report to Total's Executive Committee and the Board of Directors.

Total also has a Human Rights Coordination Committee, which meets for informal discussion every other month and is headed by the Ethics Committee Chairman and comprised of staff from the International Relations, Corporate Relations, Corporate Legal Affairs, Corporate Communications, Security and Sustainable Development departments, as well as Exploration & Production's Vice President and Public Affairs.

In 2008, Total created a Compliance and Corporate Social Responsibility Department. It reports to Legal Affairs, and supervises the management of legal issues associated with business integrity, human rights, the environment, industrial safety and sustainable development, as well as covering social issues in general. The department is also tasked with deploying programs to foster compliance with principles upholding human rights.

## NOTES: TOTAL SA

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COMPANY

# TRAFIGURA BEHEER

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **NETHERLANDS** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SCRUTINIZED**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Trafigura Beheer (Trafigura) is the world's third-largest independent oil trader and is based in the Netherlands.[3] The company's Sudan-related business dates back to at least early 2003, when it marketed Sudanese oil through a contract with Canada-based Talisman Energy Inc (Talisman).[4]

Though the company does not appear to have a physical presence within Sudan, its transport of crude oil may assist the Sudanese government in generating revenue from its oil industry. Trafigura's purchase of Sudanese crude oil constitutes "Oil-Related Activities" under the targeted Sudan divestment legislative model, and the company is therefore classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Prior to March 2003, Trafigura was contracted by Talisman to market Nile Blend crude oil produced by the Talisman's Greater Nile Petroleum Operating Company (GNPOC) concession.[5] That March, Talisman sold its holdings in GNPOC to ONGC Videsh Limited (OVL), a wholly owned subsidiary of India's Oil and Natural Gas Corporation Ltd. (ONGC).[6] OVL opted to maintain Trafigura's existing contract to market Nile Blend crude from GNPOC's Heglig oil fields.[7] Reportedly, this was to provide short-term help selling Sudanese crude on the spot market.[8] While OVL extended Trafigura's contract through March 2004, the company ultimately planned on developing its own marketing capacity for its share of GNPOC's output.[9]

Trafigura has continued its involvement in Sudan's oil industry beyond the length of its contract with OVL. It still purchases individual tenders of Sudanese oil. Sudan's state-owned oil company, Sudapet, sold 2.6 million barrels to Trafigura in February and March 2008.[10] Trafigura also was considering trading Sudanese crude to "teapot" refineries (entities relying on blended fuel) in the latter half of 2008.[11] In December 2009, Trafigura purchased a 600,000 barrel cargo of Dar Blend from China National Petroleum Corporation (CNPC).[12] In addition, it purchased 1 million barrels of Nile Blend crude from Sudapet for delivery in April 2010. Reports suggest this tender may have been cancelled and will be re-offered, as the sale price did not meet Sudapet's expectations.[13]

## POTENTIAL CONCERNS AND RISKS

### Revenue stream and transparency

Trafigura does not have a presence on the ground in Sudan, so it is not associated directly with some of the industry's immediate risks and impacts such as displacement, kidnapping of workers, attacks on facilities, and environmental degradation. It is, however, associated with a revenue stream to the Sudanese government. Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region.[14] Trafigura might be tied to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south. Such a revenue stream would be even more material to the Sudanese government in the case of southern secession, given that the north stands to lose 60% to 75% of its revenue.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement.[15] The CPA brought an end to 22 years of civil war between Sudan's north and south, which had led to the deaths of two million Sudanese.

Transparency in revenue reporting—by companies and the government—has been identified as key to actualizing an agreement, in addition to being critical for reducing corruption, poverty, and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[16]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Trafigura's marketing of Sudanese crude is considered an "Oil-Related" activity under the targeted Sudan divestment legislative model, and the company is therefore classified as "Scrutinized."

While Trafigura is not publicly traded, investors may be exposed to the company through its March 2010 issuance of €400 million in bonds.[17] In addition, Trafigura announced plans to potentially list some of its industrial assets in 2010, although as of November 2010 it has not done so.[18]

## ENGAGEMENT

Since 2007, CRN has sent regular inquiries to Trafigura requesting dialogue and further information on the company's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Trafigura has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether Trafigura has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

Trafigura is not a UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: TRAFIGURA BEHEER

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COMPANY

# VITOL GROUP

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **SWITZERLAND** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Vitol Group (Vitol) of Switzerland is one of the world's largest independent oil trading companies.[3] The company has been involved in the marketing of Sudanese crude oil since mid-2005. The company is not implicated under the targeted Sudan divestment legislative model because it is not publicly traded.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Vitol was selected by Sudan's state-owned Sudapet in the summer of 2005 to market up to 3.6 million barrels per month of Dar Blend crude, produced by the Petrodar consortium.[4] The first two cargoes, bound for China and Japan, left Port Sudan in August 2006.[5]

China National Petroleum (CNPC) and Petronas surpassed Vitol in 2008 as the main marketers of Dar Blend, however, Vitol continues to purchase Sudanese crude oil. Vitol purchased 600,000 barrels of Nile Blend from Sudapet in May 2008 and 600,000 barrels of Dar Blend from Sudapet in June of that same year.[6]

The company continued these purchases in 2009, buying 600,000 barrels of Nile Blend and three million barrels of Dar Blend.[7] During 2010, Vitol has purchased one million barrels of Nile Blend,[8] and at least 4.2 million barrels of Dar Blend.[9]

## POTENTIAL CONCERNS AND RISKS

### Revenue stream and transparency

Vitol does not have a presence on the ground in Sudan, so it is not associated directly with some of the industry's immediate risks and impacts such as displacement, kidnapping of workers, attacks on facilities, and environmental degradation. It is, however, associated with a revenue stream to the Sudanese government. Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region.[10] Vitol might be tied to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south. Such a revenue stream would be even more material to the Sudanese government in the case of southern secession, given that the north stands to lose 60% to 75% of its revenue.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement.[11] The CPA brought an end to 22 years of civil war between Sudan's north and south, which had led to the deaths of two million Sudanese.

Transparency in revenue reporting—by companies and the government—is key to actualizing an agreement, in addition to being critical for reducing corruption, poverty, and instability. Global Witness, a UK-based nongovernmental organization, published findings last year that showed oil production figures reported by the Government of Sudan and one oil company varied by up to 26%.[12]

### Compliance with U.S. Law

Vitol's trading of Sudanese oil puts it at risk of violating the United States' Sudan Accountability and Divestment Act (SADA).

In 2009, Vitol signed a U.S. $50 million contract to fill the U.S. Strategic Petroleum reserve.[13] Under the terms of SADA, Vitol would have been prohibited from receiving this contract if it was simultaneously conducting with oil-related business with Sudan, unless it had previously received a Presidential waiver. It is unclear if Vitol has received such a waiver, and whether Vitol was in violation of SADA.

## ENGAGEMENT

Since 2007, CRN has sent regular inquiries to Vitol requesting dialogue and further information on the company's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Vitol has not published a human rights policy or referenced human rights in its materials.

### 2. Impact Assessments

No information is available on whether Vitol has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

Vitol is not a UNGC participant.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on the board-level involvement on human rights-related risks and concerns.

## NOTES: VITOL GROUP

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[9] "Asia-Pacific Crude-Light grade offers ambitious," Reuters, February 3, 2010, at http://uk.reuters.com/article/idUKSGE6120E220100203?pageNumber=1&virtualBrandChannel=0.

[10] Jeffrey Gettleman, "War in Sudan? Not Where the Oil Wealth Flows," New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

[11] "Sudan—Fuelling Mistrust," p. 19, Global Witness, 2009, at http://www.globalwitness.org/library/fuelling-mistrust-need-transparency-sudans-oil-industry.

[12] Id

[13] "S. 2271--110th Congress (2007): Sudan Accountability and Divestment Act of 2007," GovTrack.us website, at http://www.govtrack.us/congress/bill.xpd?bill=s110-2271&tab=summary.

[14] "DOE Awards Crude Oil Contracts for Strategic Petroleum Reserve Acquisitions," IHS, January 21, 2009, at http://energy.ihs.com/News/markets/2009/doe-strategic-petro-reserver-contracts-1-09.htm; Ian Talley, "DOE Says Vitol's Contract to Fill Petroleum Reserve is Viable," Wall Street Journal, April 30, 2009, at http://online.wsj.com/article/SB124113306705775031.html.

COMPANY

# WÄRTSILÄ OYJ

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **FINLAND** | **OIL** | **PRIORITY ENGAGEMENT** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**SUBSTANTIAL ACTION**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**WÄRTSILÄ EAST AFRICA** (wholly owned subsidiary with Sudan-related operations)

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Wärtsilä Oyj (Wärtsilä), based in Finland, provides engines, other power solutions, and servicing and maintenance for the marine, oil, and gas industries. The company has had Sudan-related operations since the late 1970´s, and has supplied power plant and oil pipeline equipment to oil concessions that have been associated with human rights abuses and environmental problems.[3] Wärtsilä is currently in the process of implementing a humanitarian program that constitutes "Substantial Action" under the targeted Sudan divestment legislative model, and is therefore not classified as "Scrutinized."

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In 1997, Wärtsilä established Wärtsilä Eastern Africa Limited (WEA) as a wholly owned subsidiary. WEA, based in Kenya, maintains the company's East Africa power production and maintenance contracts, including those in Sudan.[4] Though Wärtsilä and WEA do not maintain offices or personnel in Sudan, a company called Intercontinental Trading & Engineering (ITE) has served for more than 20 years as its agent (but not representative) in Sudan.[5]

Wärtsilä's contracts in Sudan have included the supply, installation, and maintenance of power plant equipment, and because Wärtsilä specializes in "lifecycle" power solutions, the contracts tend to have durations of 20 to 30 years.[6] Since its inception, WEA has installed at least 74 engines for use in power plants in Sudan.[7] Wärtsilä states that some of its most important oil–fueled power plant orders are from Sudan, according to a 2003 interim report.[8]

Wärtsilä reportedly was involved in part of the Petrodar consortium's Melut Basin Oil Project through its construction of the Palogue and Al Jabalayn power stations.[9] It may also have provided operations and maintenance services for the power plants.[10] According to Wärtsilä, its contract for the project was with a third-party engineering firm, not with Petrodar or the Sudanese government.[11]

Wärtsilä installed engines critical for pumping oil through pipelines for Petronas, a member of the Petrodar consortium. It is unclear when this work took place, but language in Wärtsilä's materials suggest that it was completed by 2008.[12] Given that Wärtsilä's contracts often include maintenance and servicing agreements,[13] the company's work related to the Petrodar group may be ongoing.

In correspondence with CRN, Wärtsilä has acknowledged that it may participate in similar sales of power plants for Sudanese projects in the future.

## POTENTIAL CONCERNS AND RISKS

### Association with concession-related impacts

Wärtsilä does not have a presence on the ground in Sudan and is not involved first-hand in exploration and production activities, and therefore it is not directly associated with or exposed to some of the oil industry's immediate risks and impacts such as insecurity, displacement, kidnapping of workers, attacks on facilities, and environmental degradation. It may, however, be linked indirectly to these concerns.

Wärtsilä's products add value to and facilitate the functioning of a consortium with a history of abuses that is of particular concern given the risk of a return to conflict following South Sudan's anticipated secession in 2011. The company was reportedly involved in constructing power stations for the Melut Basin Oil Project belonging to Petrodar, a consortium whose exploration and development activities—during the final phase of Sudan's civil war—were associated with human rights abuses against local population. These included government troops' and allied militias' destruction of villages in the concession area, the forcible displacement of the local population, and the degradation of agricultural lands.[14] The potential for violence and insecurity around the Petrodar consortium in the case of southern secession seems particularly acute, given that the consortium's oil fields straddle the border between Sudan's north and south.

In addition to these issues, oil projects in Sudan have affected the ability of local residents to access unpolluted water sources for personal and agricultural use. In the Petrodar area, roads built to service oil installations have shifted the direction of water flows, causing localized droughts and flooding.[15] In general, activities that change locals' access to land and water—scarce resources over which competition and tensions are increasing—have the potential to generate or exacerbate instability, conflict, and anger towards oil projects and companies.

Given that Wärtsilä's contracts often include maintenance and servicing agreements, the company's association with Petrodar-related projects may be ongoing. Wärtsilä has emphasized that its connections to consortia or projects on the ground have not been through contracts with the Sudanese government or Petrodar, but with a third party engineering firm. It also has said that it complies with the Organization for Economic Co-operation and Development (OECD) guidelines for operating in weak governance zones, follows a company Code of Conduct that contains an explicit declaration of respect for human rights as defined under the United Nations Universal Declaration on Human Rights, and has special guidelines on the use of security, which "incorporate human rights considerations and international best practices." Wärtsilä does not, however, seek to extend its Code and policies to its products' end-users, such as Petrodar, due to what it perceives to be a relative lack of leverage. It does monitor its partners, such as the third party engineers to whom it provides services and products in Sudan, for adherence to its Code of Conduct.[16]

### Association with key revenue stream to Sudanese government

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and 22 years of civil war between Sudan's north and south.[17]

Wärtsilä may be linked indirectly with facilitating a key stream of revenue to the Sudanese government. It reportedly was involved in constructing power stations for the Melut Basin Oil Project belonging to Petrodar, and its own materials indicate that it installed engines in Sudan for pipeline projects for Malaysia's Petronas, a member of the Petrodar consortium.[18] The engines pump oil through the pipelines. The Melut Basin's fields are some of the most productive in Sudan, with production output in 2009 of between 230,000 and 270,000 barrels per day.[19]

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Under the targeted Sudan divestment legislative model, companies that take "Substantial Action" are not considered "Scrutinized," or subject to divestment measures. Wärtsilä committed to steps after discussion with CRN in 2009 that qualify as "Substantial Action," which includes support for certain kinds of humanitarian initiatives.[20] In 2010, the company confirmed it is in the early stages of implementing a multi-year humanitarian program, which will consist of projects in the educational sector.[21] It has requested that CRN not publish the details of the entity with which it has partnered at this time, but has said it would answer inquiries from CRN members directly.

## ENGAGEMENT

Following an inquiry from CRN in 2009, Wärtsilä disputed its classification as "Highest Offender" in CRN's Company Report (the "Highest Offender" category corresponded with the targeted model legislation's term, "Scrutinized"). It stated a willingness to conduct dialogue with CRN and provide additional information on its Sudan-related operations, and invited CRN's views and suggestions on conducting sound business in weak governance zones.

A November 2009 conference call between Wärtsilä and CRN set the groundwork for future engagement and follow-up during which CRN hopes to obtain further clarification on how Wärtsilä's Code of Conduct applies in Sudan. CRN will also inquire about any steps Wärtsilä has taken or might take to encourage responsible behavior by its partners or other parties using its products and services, and the nature of its Sudan-related business and partnerships with entities on the ground.

Most recently, CRN reached out to Wärtsilä in October 2010 to discuss issues of security, revenue transparency, and the upcoming referendum on southern independence scheduled for January 2011 as part of a CRN priority engagement effort. CRN has scheduled a meeting for early December.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Wärtsilä has in place a Code of Conduct that contains an explicit declaration of respect for human rights as defined under the United Nations Universal Declaration on Human Rights, and Wärtsilä representatives have stated the company adheres to European Commission (EC) frameworks for conducting business in Sudan, and complies with Organization for Economic Co-operation and Development (OECD) guidelines for operating in weak governance zones.

Wärtsilä monitors partners, such as the third party engineers to whom it provides services and products in Sudan, for adherence to its Code of Conduct. The company does not, however, seek to extend its Code of Conduct to the end-users of its products, due to what it perceives to be a relative lack of leverage and contact with such parties.

Wärtsilä's materials also state that it has special guidelines on the use of security, "which incorporate human rights considerations and international best practices." The company states that the Code and the guidelines on security to apply not only to the company's management and employees, but to its partners and suppliers as well.

### 2. Impact Assessments

Wärtsilä states that it evaluates the impact of operational changes on local communities. Measures used for those evaluations are determined on a case by case basis, according to the company.[22]

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

Wärtsilä organizes its sustainability report around the GRI indicators. This report is also submitted to the UNGC. The company reports fully on most GRI content.[23]

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

Wärtsilä has been a UNGC participant since July 7, 2009. The company's Code of Conduct and sustainability programs purport to be in line with the UNGC's ten principles.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: WÄRTSILÄ OYJ

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[2] "Sudan-Macroeconomic Policy," African Economic Outlook, August 3, 2010, at http://www.africaneconomicoutlook.org/en/countries/east-africa/sudan/#macro_economic_policy; Paul J. Sullivan and Natalie Nasrallah, "Improving Natural Resource Management in Sudan," p. 3, United States Institute of Peace, June 2010, at http://www.usip.org/resources/improving-natural-resource-management-in-sudan.

[3] Conference call between Wärtsilä representatives and CRN, November 6, 2009.

[4] "Wärtsilä in East Africa," Wärtsilä Oyj, at http://www.wartsila.com/ke,en,aboutus,0,generalcontent,9C6275D9-C877-4947-BAEA-C78F268A4C6B,C33D9C61-195E-4EA8-9B48-803E6EA62935,,.htm.

[5] Conference call between Wärtsilä representatives and CRN, November 6, 2009.

[6] Id.

[7] "Wärtsilä Services in Eastern Africa," Wärtsilä website, 2008, at http://www.wartsila.com/Wartsila/kenya//doc/Services_in_Eastern_Africa_Folder.pdf.

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[9] "Palouge and Al-Jabalayn Power Stations, Block 3/7," China Petroleum Engineering & Construction Corporation website, at http://www.cpecc.cn/Projects/project-view.asp?id=37.

[10] See "Plant Operator," job posting, Gulf Oil & Gas online, at http://www.gulfoilandgas.com/webpro1/Jobs/CV.asp?id=3032799.

[11] Conference call between Wärtsilä representatives and CRN, November 6, 2009.

[12] "Wärtsilä Power Plants: Energy, Environment and Economy," Wärtsilä brochure, p.[10], June 2008, at http://62.[23]6.[12]0.[40]/Wartsila2/263835_Wartsila_Power_Plants_3E_lowres.pdf.

[13] Conference call between Wärtsilä representatives and CRN, November 6, 2009.

[14] See "Oil Development in Northern Upper Nile, Sudan," European Coalition on Oil in Sudan, May 2006, at http://www.ecosonline.org/reports/2006/%5Eindex.html/ECOS%20Melut%20Report%20final%20-text%20only.pdf.html.

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[16] Conference call between Wärtsilä representatives and GI-NET, November 6, 2009.

[17] Jeffrey Gettleman, "War in Sudan? Not Where the Oil Wealth Flows," New York Times, October 24, 2006, at http://www.nytimes.com/2006/10/24/world/africa/24sudan.html?pagewanted=1&_r=1.

[18] "Wärtsilä Power Plants: Energy, Environment and Economy," Wärtsilä brochure, p.[10], June 2008, at http://62.[23]6.[12]0.[40]/Wartsila2/263835_Wartsila_Power_Plants_3E_lowres.pdf; http://www.wartsila.com/Wartsila/global/docs/en/power/media_publications/brochures/energy-environment-economy-brochure.pdf (link no longer available; copy retained by GI-NET).

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[20] Conference call between Wärtsilä representatives and CRN, November 6, 2009.

[21] Email from Wärtsilä to CRN, February 18, 2010.

COMPANY

# ZAIN GROUP

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **KUWAIT** | **TELECOMMUNICATIONS** | **PRIORITY ENGAGEMENT** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**ZAIN SUDAN** (majority owned subsidiary with Sudan-related business activities)

## CONTEXT OVERVIEW

### Industry

As of the first quarter of 2010, Sudan is home to 17.75 million cellular phone subscribers, with that number growing at a rate of 38% per year.[1] Facilitating this are almost 2,000 telecommunication sites creating network coverage for more than 85% of the population (35% geographically), up from 43% at the end of 2006.[2] In 2008, these users were sending an estimated 100-150 million short message service (SMS) messages per month.[3] This exploding market is serviced by a small number of mobile providers.

Sudan's young telecommunications sector has the potential to play a contributing role to peace and stability. The availability of cell phones in Africa has been strongly correlated with increased information sharing, improved healthcare outcomes, promotion of literacy, and good governance.[4] Mobile technology is also playing an increasingly prominent role in election monitoring and the reporting of human rights abuses in areas that were formerly inaccessible. During the violence following Kenya's election in 2007, 45,000 cell phone users reported incidents of post-election violence, and their updates were mapped and disseminated in real time on a software platform accessible to the world.[5]

The telecommunications sector also has the potential to play a material role in Sudan's conflicts. In 2005, it was reported that state-owned telecommunications company Sudatel disabled its cell towers at the government's instruction in advance of government and militia attacks in Darfur, thereby interrupting service that would allow villagers to warn each other of impending violence.[6] There have not been reports of similar actions in Sudan since, but links between conflict and cell phone technology in other areas indicate a need for ongoing concern. In Nigeria and Mozambique, SMS technology was cited recently for its role in facilitating and coordinating outbreaks of violence.[7] There are also concerns about whether government entities monitor communication conducted through these services, and if they do, the extent to which information is misused with the awareness or complicity of companies.[8]

Though less directly connected to conflict, it has been noted that telecommunication companies pay significant licensing fees directly to the Sudanese government. According to a 2010 analysis by Deloitte LLP, mobile service providers paid an estimated 1.3 billion Sudanese pounds (SDG) (roughly U.S. $776 million) in taxes and fees between 2006 and 2008.[9] The bulk of these fees (64%) were attributed to the country's value added tax.[10] Regulatory fees, which include annual license renewal, were estimated at approximately 7.5% of the overall tax and revenue generated by cellular network operators.[11] Between 2006 and 2008, these fees generated an estimated 123 million SDG (approximately U.S. $58 million) for the government. These numbers do not include the significant additional tax revenues generated by related businesses such as handset or airtime retailers. While taxes and fees contribute a not insignificant sum to the Sudanese government, they do not constitute a primary revenue source for the regime. Between 2006 and 2008, they amounted to less than 1% of the nearly U.S. $19 billion in revenue that the petroleum industry generated during that same period.[12] However, their significance might increase as the government looks to decrease its dependency on oil in advance of South Sudan's possible succession.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a referendum on independence that is scheduled for January 9, 2011. The vote is called for under the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement. The CPA brought an end to 22 years of civil war between Sudan's north and south that led to the deaths of two million Sudanese. Human rights advocates, political leaders, and the international community are concerned that disruptions in the referendum process and secession could reignite conflict between Sudan's north and south.

The potential for fall-out from the referendum process holds significant implications for the private sector in Sudan. Areas affected by conflict differ significantly from stable operating environments. They exhibit instability, unpredictable conditions, and contexts in which rights violations are ongoing, presenting companies with greater challenges in ensuring they do not infringe on human rights. Not only is it more difficult for companies to do no harm in such settings, but the failure to adhere to standard corporate responsibility practices carries the potential for heightened impacts on communities and on companies themselves.

### Company

Sudanese Mobile Telephone Company Limited (Zain Sudan), a subsidiary of Zain Group, began in 1997 as Mobitel, the first mobile provider in Sudan. Zain Sudan currently operates 1,729 telecommunication sites providing coverage to 790 cities and towns across Sudan.[13]

As telecommunications firms, Zain Group and Zain Sudan do not have activities that meet the definition of "Scrutizined Business Operations" under the targeted Sudan divestment legislative model. They also do not appear to meet the model's definition of "Complicity" in the Darfur conflict, and are therefore not subject to its divestment measures.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

Zain Sudan is currently the largest telecommunications company in the country, with a 63.6% market share and 8.4 million active customers.[14] Of the 2,000 telecommunications sites extending coverage to 85% of the population, Zain Sudan currently operates 1,729, covering 790 urban areas, including over 40 in South Sudan and 25 in Darfur.[15]

The company, initially known as Mobitel, began as a joint venture between the state-owned Sudanese Telephone Company Ltd (Sudatel) and private investors in February 1997. Zain Group acquired Mobitel for U.S. $1.3 billion in 2006, and rebranded it as Zain Sudan in September 2007.[16] Following the rebrand, the company renewed its license in Sudan for an additional 20 years.

Despite local insecurity, the company (then Mobitel) began installing service in Juba, southern Sudan, under government protection in 2003. Initial development in the south was slowed by the fact that mobile operators were required to obtain permission from southern authorities. While the security situation in Darfur is somewhat improved from several years ago, Zain Sudan's investment there has been hampered by problems with theft, especially of transmission equipment and copper cables.[17]

In 2009, Zain Sudan reported gross revenue of U.S. $994.3 million. As of 2009, Sudanese law requires Sudanese mobile operators to pay to the government 2% of gross revenues in universal access fees, plus an annual fee of 2 SDG (U.S. $0.84) per customer.[18] For Zain Sudan, that amounts to U.S. $19.9 million in gross revenue and U.S. $7.2 million in customer fees, plus an unknown license fee.

## POTENTIAL CONCERNS AND RISKS

### Potential for complicity in government repression and violence surrounding the January 2011 referendum period

Given recent history, there is potential for telecommunication sector complicity in violence in Sudan. An African Union military observer reported in 2005 that Sudatel had disabled its subsidiary's cell towers in Darfur in advance of government and militia attacks, thereby interrupting service that would allow villagers to warn each other of impending violence.[19]

Incidents in other countries have raised additional concerns about ways in which the telecommunications sector's position might be exploited by the Sudanese government. In September 2010, the government in the Republic of Mozambique ordered its state-owned telecommunication company and a private mobile provider to disable text messaging, blaming SMS for the mobilization of protestors during riots in the capital.[20] The companies initially denied disabling SMS service before citing legal obligations and the government's justification of protecting national security, which some human rights groups have questioned.[21]

There is concern that these kinds of actions could take place in Sudan in the event of conflict following South Sudan's expected secession in January 2011. CRN is not aware of any reports that Zain Sudan, which has network infrastructure in areas already experiencing violence, has been complicit in violence or government repression before. Nyala, Darfur's inner limits, and surrounding areas have been the scene of repeated assaults on humanitarian workers and peacekeepers, and numerous military attacks.[22]

There is also concern that SMS and other cell phone technology might be used by state and non-state actors alike to facilitate violence in Sudan, as has been done in other conflict-affected areas. In Nigeria and Mozambique, the technology was cited recently for its role in facilitating and coordinating riots and fatal ethnic violence.[23]

Additionally, there are concerns about whether government entities monitor communication conducted through these services, and if they do, the extent to which information is misused with the awareness or complicity of companies.[24] Under a new regulation in Egypt, government controllers will monitor opposition movements' text messages, with funding for the monitoring coming from a 3% levy on SMS-generated revenues.[25] Following recent protests in Mozambique, the government I instituted requirements that personal details be registered for all non-contract cell phones users, a move that is widely seen as an effort to crack down on dissent. Citing security concerns, the Sudanese government implemented similar registration requirements in 2008.[26] Non-contract, prepaid cell phone users make up 93% of Zain Sudan's customers.[27]

### Revenue stream

There are questions as to what significance telecommunication taxes and regulatory fees have as a source of revenue for the government. According to a 2010 analysis by Deloitte LLP, cellular network operators paid an estimated 1.3 billion SDG (roughly U.S. $776 million) in taxes and fees to the Sudanese government between 2006 and 2008.[28] The bulk of these fees (64%) were attributed to the country's value added tax.[29] Regulatory fees, which include annual license renewal, were estimated at approximately 7.5% of the overall tax and revenue generated by cellular network operators.[30] Between 2006 and 2008, these fees generated an estimated 123 million SDG (approximately U.S. $58 million) for the government.

While these are not insignificant sums, they constitute a relatively small percentage of the government's overall revenue. This is particularly apparent in comparison to the revenue generated by the petroleum industry, which was estimated at nearly U.S. $19 billion between 2006 and 2008.[31] Taxes and fees that cellular network operators paid to the Sudanese government over the same time period equaled just over 1% of that amount. Regulatory and licensing fees, a subset of that 1%, generated about the same amount as three average cargos of Sudanese crude oil.[32] Zain Group, Zain Sudan's parent, appears to be aware of some of the risks associated with telecommunications technology in this context. A recent report that Zain Group commissioned with another company stated, "Mobile communications are an asset to many of those facing conflict, but those making the investments must be stringent in their due diligence to ensure no allegations of beneficial or silent complicity."[33]

Zain Group has taken a number of steps to contribute to peace and stability in its other areas of operation. In August 2010 the company launched a Middle East-wide marketing campaign to promote fundraising for the United Nations Relief and Works Agency for Palestinian Refugees (UNRWA). Zain Group gave its customers the opportunity to send SMS donations directly from their phones.[34] Such initiatives suggest Zain Group might be open to similar campaigns in Sudan.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

As telecommunications firms, Zain Group and Zain Sudan do not have activities that meet the definition of "Scrutinized Business Operations" under the targeted Sudan divestment legislative model. They also do not appear to meet the model's definition of "Complicity" in the Darfur conflict, and are therefore not subject to its divestment measures.

Zain Group is currently in the process of selling a controlling stake in the company to Etisalat, the United Arab Emirates' largest telecom. The deal, which is expected to close in January 2011, would give the publicly traded company a 51% share of Zain Group.[35]

## ENGAGEMENT

CRN initiated dialogue with Zain Group and Zain Sudan in October 2010, and is asking the company to take several steps to ensure it respects human rights and to consider actions that could further support peace and stability during the upcoming referendum process.

A Zain Sudan representative acknowledged CRN's request and indicated that the company would follow up in due course.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Zain Sudan and its parent, Zain Group, do not have a stand-alone human rights policy, but they have made reference to having a corporate social responsibility (CSR) policy. There is no information available as to what that policy consists of or if it incorporates human rights principles. Zain Group has expressed its commitment to "the social and economic development of the communities in which it operates,"[36] and is working to adhere to the guidelines of the Global Reporting Initiative.[37]

The Zain Group is also a member of the Business Leaders Initiative on Human Rights (BLIHR), whose principal purpose is "to find practical ways of applying the aspirations of the Universal Declaration of Human Rights within a business context and to inspire other businesses to do likewise."[38]

Zain Sudan is in the process of fully adopting a system of corporate governance based on the principles endorsed by the Organisation for Economic Cooperation and Development (OECD).[39]

### 2. Impact Assessments

No information is available on whether Zain Group or Zain Sudan has conducted an impact assessment to determine the actual or potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

While Zain Group states it is attempting to "bridge the gap between CSR and our core products and services, embedding it strategically into the DNA of the organization," there is no publicly available information on what efforts are being made to integrate human rights into company practices.[40]

### 4. Human Rights Tracking and Reporting

No information is available on whether human rights principles are incorporated into the company's corporate social responsibility policy or whether performance is tracked in that regard.

## RELEVANT POLICIES & PRACTICES

### UN Global Compact

Neither Zain Group nor Zain Sudan are UNCG participants, but Zain Group has stated that it is "working towards the gradual implementation of the UNGC."[41] It is unclear if this means the company is working towards becoming a UNGC participant or working towards the implementation of the UNGC's ten principles.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

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COMPANY

# ZAVER PETROLEUM CORPORATION LIMITED

| COUNTRY | SECTOR | CRN CLASSIFICATION |
|---|---|---|
| **PAKISTAN** | **OIL** | **WATCH LIST** |

TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL CATEGORY

**N/A**

CORPORATE STRUCTURE RELEVANT TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

**N/A**

## CONTEXT OVERVIEW

### Industry

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. A former Sudanese finance minister estimated that more than 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and to a recent civil war that cost two million lives.[1]

In addition to this revenue stream, there is a history of more direct connections between the oil industry and conflict in Sudan. During the war fought between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. Some companies have been accused of complicity in war crimes and crimes against humanity, and are facing related criminal investigations.

Armed groups reportedly perceive that companies partnering with the Government of Sudan in oil exploration are military partners as well. Citing this, they have kidnapped foreign oil workers and carried out and threatened attacks against oilfields.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Currently, oil provides the Government of Sudan and the regional Government of South Sudan with 63% and 98% of government revenue, respectively.[2] The regions have yet to strike an agreement regarding revenue sharing in the case of southern secession. In this context, experts have identified the oil industry and its infrastructure as assets over which the north and south may battle.

### Company

Pakistan's Zaver Petroleum Corporation Limited (Zaver Petroleum) has a stake in oil fields in Sudan through its Dubai-based subsidiary, Zaver Petroleum Gulf Limited (ZP Gulf).

A portion of the company's concessions are located in Jonglei State, which has experienced recent armed conflict. Zaver Petroleum does not fall under the targeted Sudan divestment legislative model because it is not publicly traded.

## HISTORY OF SUDAN-RELATED BUSINESS ACTIVITIES

In August 2003, Zaver Petroleum and Sudapet, Sudan's state-owned oil company, formed the Sudapak joint venture.[3] Through Sudapak, Zaver Petroleum acquired an 85% stake in Sudan's Block 9 oil field. An Exploration and Production Sharing Agreement (EPSA) committed Zaver Petroleum to a six–year exploration program that involved 2,000 km of seismic acquisition and the drilling of seven exploration wells.[4] Upon signing, the company announced its intention to spend U.S. $23 million on 1,000 km seismic acquisition and three exploration oil wells in the first three years. According to the company, seismic acquisition has been completed, and Sudapak has moved forward with well drilling.[5] According to a fellow Block 9 stakeholder, there have yet to be discoveries or production in the block.[6]

In February 2010, Sinopec subsidiary Zhongyuan Petroleum Exploration Bureau International (ZPEB)[7] announced that it had been awarded seismic survey contracts by clients operating in Block 9.[8] However, ZPEB' announcement made no mention of Zaver Petroleum.

After acquiring its stake in Block 9, Zaver Petroleum established a subsidiary, ZP Gulf, to conduct its oil and gas exploration and development in Africa and the Middle East, including for its interest in Sudapak.[9]

In 2004, Sudapak was granted exploration rights for adjacent Block 11. According to the Block 11 EPSA, ZP Gulf committed to a six–year program for 2,000 km seismic acquisition and the drilling of five oil exploration wells.[10] Exploration appears to be ongoing,[11] but no discoveries or production have been reported as of November 2010.[12]

ZP Gulf also acquired an 83% stake in Block A in 2004 and committed to a six–year program for 2000 km of seismic acquisition and the drilling of four exploration wells. By then, ZP Gulf owned nearly 300,000 square kilometers of concessions in Sudan.[13] ZP Gulf's share in Block A appears to have changed in June 2008, when Nile Valley Petroleum Limited (NVPL), Citadel Capital's oil and gas exploration platform, acquired a 58% interest from ZP Gulf. As of May 2010, ZP Gulf is listed as holding 25%, and Sudapet holding 17%.[14] Block A also appears to be in the early stages of exploration.[15]

In 2007, ZP Gulf reportedly farmed out 42% of its holdings in Block 9 and 11 to MND Exploration & Production,[16] a subsidiary of the K&K Capital Group (KKCG). NVPL reportedly entered these blocks as well, taking a 36% share of each block from ZP Gulf in June 2008.[17] As November 2010, it appears that ZP Gulf continues to hold 49% of blocks 9 and 11, with NVPL holding 36% and Sudapet owning the remainder.[18] This conflicts with an August 2009 report that MND Exploration & Production holds 42% of Block 9.[19] It is unclear how NVPL's activities have affected the relationship between KKCG, its MND Exploration & Production subsidiary, and ZP Gulf.[20]

Zaver Petroleum's interests in blocks 9, 11, and A appear to constitute a substantial portion of its overseas assets.[21] While a statement on its website suggests that the company is interested in developing and expanding its economic interests,[22] it was reported in October 2009 that Zaver Petroleum's parent company, Hashoo Group, was seeking to sell these assets in Sudan.[23]

## POTENTIAL CONCERNS AND RISKS

Local instability in Jonglei State and general potential for increasing instability and violence following anticipated southern secession in January 2011

Part of Zaver Petroleum's Block A concession is located in Jonglei State,[24] an unstable area that has experienced increasing violence and insecurity in recent years. Armed conflict during 2009 and 2010 resulted in at least 1,800 deaths, and in July 2009 the United Nations Mission in Sudan (UNMIS) acknowledged "clear grounds for concern about the security situation" in areas within or adjacent to Block A.[25] Intertribal violence in Jonglei State continues in 2010.[26] Though recent violence does not appear to be related to oil activities, it could lead to or require the presence or use of security forces in the event the consortium commences exploration activities.

It is widely predicted that southern Sudan, which holds most of Sudan's oil, will secede from the north following a January 2011 referendum on independence. Because the Government of Sudan and the regional Government of South Sudan currently rely on oil for 63% and 98% of their respective revenues, and the regions have not yet stuck an agreement on sharing revenue in the case of southern secession, many fear that the referendum will trigger violence between the north and south. In this context, the oil industry and its infrastructure have been identified as assets over which the north and south are likely to battle.

Of concern is the history of human rights abuses associated with the oil industry during conflict in Sudan. During the war between the north and south from 1983 to 2005, serious abuses—including indiscriminate attacks on, and intentional targeting of civilians, burning of shelters, and the displacement of hundreds of thousands—were committed during what has been characterized as a military campaign by the Government of Sudan to secure and take control of oil fields. The potential for the return of major conflict between Sudan's north and south raises concerns about the potential for it to occur in Zaver Petroleum's Block A concession area.

### Potential impacts of exploration activities on local populations

Oil exploration in Sudan has affected local water supplies and led to population displacement in the past. Land is a scarce resource in Sudan, and growth in human and livestock populations has increased completion for it and worsened its degradation, already a problem due to desertification caused by climate changes and poor livestock, arboricultural and farming techniques. The increasing scarcity of land has increased tensions between pastoralists and agriculturalists, which are heightened by an influx of arms.[27] There is a risk that oil exploration could increase land degradation and population displacement, create or exacerbate tensions between communities, and lead to anger towards related oil projects and companies as well.

### Revenue stream and transparency

Sudan's oil industry has been noted for the significant capacity it provides to the Sudanese government, which relies on foreign companies' expertise, technology, and investments to reap billions in annual revenue. It has been estimated that 70% of this revenue is funneled to Sudan's military, which has been connected directly to violent conflict in the Darfur region and a recent civil war between the north and south.[28] In the event that Zaver Petroleum's blocks enter production, the company will be tied to a revenue stream that facilitates the Sudanese government's capacity for violence, whether in Sudan's Darfur region or in a potential conflict with Sudan's south. Such a stream would be even more material to the Sudanese government in the case of southern secession, given that the north stands to lose 60% to 75% of its revenue in that scenario.

Given the north and south's dependence on oil resources, a revenue sharing agreement will be a critical component in sustaining peace between them. Such an agreement is a key pillar of the Comprehensive Peace Agreement (CPA), an accord signed in 2005 by the Government of Sudan and the Sudan People's Liberation Movement.[29] The CPA brought an end to 22 years of civil war between Sudan's north and south, which had led to the deaths of two million Sudanese.

## ACTIVITIES SPECIFIC TO TARGETED SUDAN DIVESTMENT LEGISLATIVE MODEL

Zaver Petroleum is not a publicly traded company, and therefore does not fall under the targeted Sudan divestment legislative model.

## ENGAGEMENT

CRN sent inquiries in August and January 2008 requesting dialogue and further information on the company's Sudan-related operations. CRN has not received a response.

## FOUR-STEP DUE DILIGENCE PROCESS

### 1. Human Rights Policy

Zaver Petroleum does not publish a human rights policy or reference key human rights norms in its materials. The company does state that it "ensures the health and safety of its employees and of those affected by its business and goes beyond compliance with local regulation to meet internationally accepted good practice in health, safety and environmental protection."

### 2. Impact Assessments

No information is available on whether Zaver Petroleum has conducted an impact assessment to determine the actual and potential impacts of its Sudan-related business activities.

### 3. Human Rights Integration

There is no information available detailing what efforts, if any, are being made to integrate human rights principles into company practices.

### 4. Human Rights Tracking and Reporting

There is no information available detailing what efforts, if any, are being made to track and report the integration of human rights principles into company practices.

## RELEVANT POLICIES & PRACTICES

### Human Rights Policy

Zaver Petroleum does not publish a human rights policy or reference key human rights norms in its materials.[30]

### UN Global Compact

Zaver Petroleum is not UNGC participant.

### EITI

Zaver Petroleum is not a member of EITI.

### Board-Level or Executive Committee Involvement on Human Rights-Related Risks and Concerns

No information is available on board or executive-level involvement on human rights-related risks and concerns.

## NOTES: ZAVER PETROLEUM CORPORATION LIMITED

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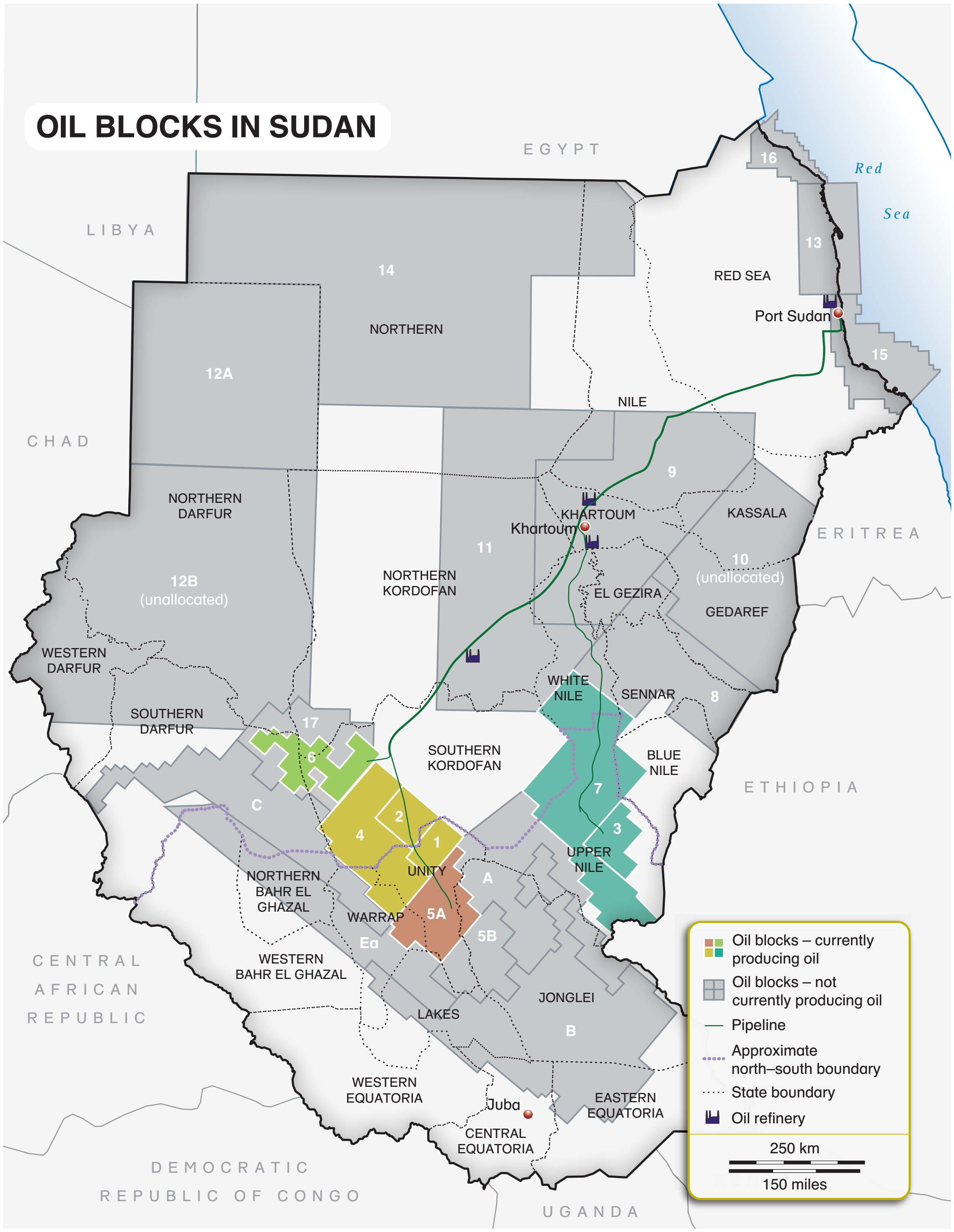


Map courtesy of Global Witness

# REFERENCE

**Advanced Petroleum Operating Company (APCO):** The APCO consortium, which is comprised of Hi–Tech Petroleum Group Co. Ltd. (HTPG; 65%), the Sudan National Petroleum Company (Sudapet; 17%), Higleig Petroleum Service and Investment Co. Ltd. (HPSIC; 8%),[1] and Khartoum State (10%), operates the Block C concession.[2] In 2009, APCO ceased operations in Block C due to a previously discovered oil well being reassessed as dry.[3] In July 2010, one of the consortium partners announced plans to review the block's exploration history in order to restart operations.[4]

**Block 1:** Block 1 is part of the Greater Nile Petroleum Operating Company (GNPOC) consortium. The block contains several major producing oilfields, including Munga, El Toor, and Unity.[5] The Unity field was discovered by Chevron in 1978, marking the first onshore oil discovery in Sudan.[6]

**Block 2:** Block 2 is part of GNPOC. It contains several major producing oilfields, including Heglig and Toma South.[7] The Heglig field produces approximately 37% of Sudan's oil,[8] and reportedly contains a further 200 million barrels of oil reserves.[9] The block straddles part of the sensitive border between north and south Sudan, specifically between Unity and South Kordofan states.

**Block 3:** Block 3 is held by the Petrodar Operating Company (Petrodar) and contains the Adar-Yale field, originally discovered by Chevron in 1981. Fields within Block 3 produce Dar Blend crude.[10] In March 2009, the new Gumry and Moleeta fields added 60,000 barrels to Sudan's daily crude oil output.[11] It is currently unclear whether these fields are located solely in either Block 3 or Block 7.

**Block 4:** Block 4 is part of the GNPOC consortium and contains the Neem and Defra (Diffra) fields.[12] The Block 4 concession straddles the sensitive border region between north and south Sudan and includes the contested Abyei region.

**Block 5A:** Block 5A is currently in production and is operated by the White Nile Petroleum Operating Company 1 (WNPOC-1) in Unity State. It includes the Thar Jath and Mala fields.[13] Block 5A has been associated with negative environmental and social impacts.[14]

**Block 5B:** Block 5B is located in the Muglad basin, adjacent to the blocks 5A, A, and B.[15] Currently, Moldova-based Ascom the operator of Block 5B, having replaced the WNPOC-2 consortium in August 2009.[16] Exploration on Block 5B began in February 2008,[17] but no discoveries have been publicized. As Block 5B is located in the Sudd wetlands, there is potential for operations to have negative environmental impacts, including the pollution of ground and surface water sources. Parts of Block 5B are also situated in Jonglei State, which witnessed a spike in armed conflict during 2009.[18]

**Block 6:** Located in the Melut Basin, Block 6 is operated by Petro Energy E & P., which is held jointly by CNPC (95%) and Sudapet (5%).[20] As of September 2009, production from Block 6 was estimated to be between 39,000 to 40,000 bpd of Fula Blend crude.[21] In October 2010, it was reported that parts of South Darfur in and around the Block 6 concession were under exploration.[22]

**Block 7:** Block 7 is currently producing Dar Blend crude for the Petrodar consortium.[23] The Palogue field, the Block's major producing oilfield, is estimated to have 956 million barrels of recoverable oil reserves.[24] The block may also include the Moleeta and Gumry oil fields, which came online in 2009, adding an estimated 60,000 barrels to daily production.[25] It is currently unclear whether these fields are located solely in either Block 3 or Block 7. The block straddles the sensitive border region between north and south Sudan.

**Block 8:** Block 8 is operated by the White Nile Petroleum Operating Company 3 consortium (WNPOC-3) in Sudan's Blue Nile Basin.[26] The block is currently under exploration and WNPOC-3 announced the discovery of natural gas reserves with the potential to produce up to 20 trillion cubic feet of natural gas in 2009.[27]

**Block 9:** Block 9, located in north central Sudan, is operated by the Sudapak I consortium, initially composed of Pakistan's Zaver Petroleum Corporation Limited (Zaver Petroleum; 85% stake) and Sudapet (15%).[28] MND Exploration and Production, an affiliate of the K & K Capital Group (KKCG), has been affiliated with Block 9 since 2006.[29] In 2008, Nile Valley Petroleum Limited (NVPL), a Citadel Capital company, purchased a stake in Block 9.[30] As of November 2010, NVPL holds 36% of Block 9, Zaver Petroleum holds 49% and Sudapet holds 15%.[31] It is unclear if the entrance of NVPL has affected the status of MND Exploration and Production or the composition of the Sudapak I consortium. Exploration of Block 9 started in 2004, with the successful acquisition of seismic data, but no discoveries have been made in the block.[32]

**Block 10:** In August 2010, Fenno Caledonian, a private Finnish company, signed a U.S. $30 million dollar exploration and production sharing agreement (EPSA) with Sudapet for Block 10.[33] Fenno Caledonian holds an 85% ownership stake, while Sudapet holds the remaining 15%.[34] Work on the block will be carried Fenno Caledonian's subsidiary, Fenno Caledonian Gedaraef.[35]

**Block 11:** Located in north central Sudan, Block 11 is operated by the Sudapak I consortium, which also operated Block 9.[36] MND Exploration and Production has also been affiliated with exploration in Block 11 since 2006.[37] In 2008, NVPL purchased a stake in Block 11.[38] As of November 2010, NVPL holds 36% of Block 11, Zaver Petroleum holds 49% and Sudapet holds 15%.[39] It is unclear if the entrance of NVPL has affected the status of MND Exploration and Production or the composition of the Sudapak I consortium. Exploration in Block 11 began in 2004 and appears to be ongoing, but has only yielded one dry well.[40]

**Block 12A:** In November 2006, Block 12A was awarded to the Greater Sahara consortium, which includes Al-Qahtani & Sons Group of Companies (33%), Ansan Wikfs Investments Limited (20%), Sudapet (20%), Dindir Petroleum (15%), HTPG (7%) and All Africa Investments Corp. (5%).[41] A Global Witness report published in March 2010 alleged that recently gathered satellite evidence suggested seismic exploration was underway in Block 12A.[42]

Exploration in Block 12A may have been the impetus for Sudanese government operations against rebels in North Darfur during August of 2008.[43] Military operations reportedly occurred in the same region where rebels claimed that Chinese and Saudi engineers were conducting oil exploration activities.[44]

**Block 12B:** Lying in the center of Darfur, Block 12B is currently unassigned. During the Darfur conflict, the block has been the site of repeated clashes between Sudanese government troops and armed opposition groups during which civilians have been killed.

**Block 13:** In July 2007, Block 13 was awarded to a group made up of CNPC (40%), Pertamina (15%), Sudapet (15%), Dindir Petroleum International (10%), Express Petroleum & Gas Co. Ltd (10%), and Africa Energy (10%).[45] As of 2010, Block 13 appears to still be under exploration.[46]

**Block 14:** The status of this block is currently uncertain. Reports suggest that Block 14 is wholly-held by Sudapet, the Sudanese national oil company.[47] Other information has linked ownership of the block with Fenno Caledonian Dongola, a subsidiary of Fenno Caledonian.[48]

**Block 15:** This block is held by the Red Sea Petroleum Operating Company (RSPOC) and is operated by Petronas, CNPC and Sudapet.[49] Half of the concession is located in the Red Sea.[50] Six months of offshore exploration in the block began in February 2010, and the first of two exploration wells was drilled south-east of Port Sudan.[51]

**Block 17:** Created from parts of Block 6 relinquished by CNPC, Block 17 lies primarily in Darfur, but extends into Southern Kordofan and Bahr el Ghazal states.[52] The concession is held by Ansan Wikfs (66%) and Sudapet (34%).[53] The Block reportedly contains two oil discoveries and remains under exploration.[54]

Block 17 has been the location of violence categorized as offshoots of the Darfur conflict. In 2009, the Sudan Armed Forces (SAF) and the rebel Justice and Equality Movement (JEM) clashed in the block.[55]

**Block A:** Block A is operated by the Sudapak II consortium, which was held by Zaver Petroleum (83%) and Sudapet (17%) upon the consortium's creation.[56] The 2008 purchase of a 58% stake in the block by NVPL appears to have adjusted Zaver Petroleum's equity holding to 25%, with Sudapet's holdings remaining the same.[57] The block is still under exploration with no discoveries reported.[58] Part of the Block A concession is located in Jonglei State,[59] which witnessed a spike in armed conflict during 2009.[60] It does not appear that this violence is connected to oil exploration within the concession.[61]

**Block B:** Block B is held by a joint venture operated by Total SA (32.5%), KUFPEC (27.5%), Sudapet (10%), and the Government of South Sudan-owned Nilepet (10%).[62] The remaining 20% of the block has reportedly been assigned to Spain-based Star Petroleum.[63] CRN has not seen this information confirmed by sources other than Star Petroleum. Operations in Block B are currently inactive. Total SA has said it plans to restart exploration, pending the confirmation of the consortium as well as the resolution of a number of other issues.[64]

Most of Block B is located in Jonglei State,[65] which witnessed a spike in armed conflict during 2009.[66] Many of these clashes stemmed from disputes over cattle. According to the United Nations, nearly 500 people were killed in March 2009, and hundreds more in April.[67] For more information on violent conflict within Block B, please consult the profile for Total SA in this report.

**Block C:** This block is held by APCO and is located partially in South Darfur.[68] APCO has reportedly ceased operations in Block C due to the reassessment of a previously discovered find as a dry well.[69]

Block C straddles the undefined north-south border and includes the sensitive border between Northern Bahr El Ghazal State and South Darfur State. Given its location, the concession area may be the location of fighting between north and south Sudan concerning access to oil resources as well as the physical location of the border.[70] The border area may also have been the location of clashes between the SAF and JEM rebels in November 2010.[71]

**Block E:** Located in the southwestern Sudan, Block E extends from northern Western Equatoria Province to Northern Bahr El Ghazal province.[72] In August 2010, Star Petroleum signed an oil exploration and production contract for a 75% operating stake of Block E with the Government of Sudan.[73] The remaining stakes are held by Hamla (5%) and Sudapet and Nilepet (20% combined).[74]

Block E straddles the disputed border between South Darfur and Northern Bahr al Ghazal states, which is contested by local residents.[75] In April 2010, Sudanese People's Liberation Army (SPLA) troops clashed with nomads near the block's northern border.[76] The border area may also have been the location of clashes between the SAF and the JEM rebel movement in November 2010.[77]

**Comprehensive Peace Agreement:** The Comprehensive Peace Agreement (CPA) lays out the terms of the ceasefire that ended the 22 year old civil war between the Government of Sudan (GoS) and the peoples of South Sudan, represented by the Sudanese People's Liberation Movement (SPLM) and its armed wing the SPLA.[78] Signed in January 2005, the CPA addresses a number of political, economic, military, and boundary issues, including contentious issues that may jeopardize the ceasefire. Among these are: oil revenue sharing, status of Abyei, and the South Sudanese referendum.

**Oil Revenue Sharing Provisions**

The CPA stipulates that revenues generated from oil produced in South Sudan will be split between the National Government of Sudan and the new semi-autonomous Government of South Sudan (GoSS), after 2% of revenues are remitted to the state in which the oil is produced. Oil revenues from reserves located in north Sudan are fully controlled by the Sudanese National Government.[79]

The GoSS remains unable to independently review petroleum production figures, exacerbating mistrust between the north and the south.[80]

**Status of Abyei**

The CPA also contains provisions concerning Abyei, an oil rich region of South Kordofan state, directly along the north-south border. Abyei serves as "a bridge between the north and the south."[81] As such, Abyei is both the home of a number of traditional Southern communities as well as a migratory pasture for the nomadic Arab Misseriya tribe.[82] In 2011, Abyei's residents will vote in a referendum governing whether the region will remain within northern Sudan or join an independent South Sudan.[83] This referendum is independent of South Sudan's independence referendum set for 2011.[84]

Oil revenues generated from fields in Abyei are governed by provisions similar to those for oil revenues generated from fields in South Sudan. This includes revenues from the Heglig and Bamboo oil fields.

The unsettled status of Abyei and resultant tensions led to armed clashes between the SPLA and Misseriya in 2007 and 2008.[85] Further violence between the SPLA and SAF in May 2008 destroyed much of Abyei town and displaced nearly 60,000 residents.[86]

Administration and development of Abyei is complicated by the fact that the boundaries of the Abyei region were not agreed upon at the time of the signing of the CPA.[87] After failed attempts to resolve Abyei's disputed boundaries, the case was referred to The Hague-based Permanent Court of Arbitration (PCA). In July 2009, the PCA ruled on the boundaries of Abyei.[88] The ruling stated that the Heglig oil fields were not part of Abyei district, a decision that may result in the GoS reducing oil revenue remittances to South Sudan.[89] However, the GoSS contends that the Heglig and Bamboo fields are located in Unity State and thus potentially part of an independent south.[90]

Abyei's status has repercussions beyond the ownership of its sub-surface assets. The PCA ruling divided territorial rights between the local Ngok Dinka and the Arab Misseriya tribes.[91] Any demarcation of the boundaries of Abyei will affect the post-2011 status of ancestral Dinka lands as well as long-held Misseriya grazing rights. The Misseriya dispute the ruling of the PCA, fearing the loss of migration routes and are reportedly prepared to use force if necessary to stay in their current locations in Abyei.[92] An MP for Abyei alleged in March 2010 that the Misseriya have formed a militia to protect their interests and are impeding the completion of the border demarcation process.[93] Tensions between the Misseriya and the SPLA may have led to skirmishes between the two groups in February and March 2010, when the Misseriya attacked an SPLA base in Unity State.[94]

**The 2011 Self-Determination Referendum**

The CPA stipulates that South Sudan has the right to vote on its self-determination through a referendum to be held in January 2011.[95] The potential secession of the South from the North casts uncertainty on the status and stability of numerous oil concessions.

**Dar Blend:** This highly-acidic crude is found in Sudan's Melut Basin, particularly in blocks 3 and 7, operated by Petrodar. Dar Blend is heavy paraffinic crude and requires special refinery equipment because of its acidity and arsenic content.[96] As a result of its high fuel content, Dar Blend has often been blended with other components and sold as fuel oil, generally trading at a lower price than crude oil.[97] China is the largest buyer of Dar Blend, with few cargoes sold to South Korea, Taiwan, and Malaysia, and very little purchased by European countries.[98]

Sudan's export of Dar Blend increased significantly with the opening of a new export terminal in June 2007.[99] As of 2010, Sudan produces nearly 300,000 barrels of Dar Blend crude per day.[100]

**Fula Blend:** Fula Blend is produced in Block 6. Sudan currently produces between 36,000 and 40,000 barrels of the Fula Blend crude daily, which is locally refined at the Khartoum refinery for domestic consumption due to its low quality.[101] The Sudanese government plans to use Fula Blend crude for domestic energy generation, specifically at the Al Fula Steam Power plant, currently under construction in South Kordofan.[102] Sudan has also considered the possible export of Fula Blend crude via the Nile Blend pipeline.[103] For export, Fula Blend would need to be sent through the Nile Blend pipeline to Port Sudan.[104]

**Greater Nile Petroleum Operating Company (GNPOC):** The GNPOC oil consortium operates in blocks 1, 2, and 4 in central Sudan. It is comprised of CNPC (40%), Petronas (30%), ONGC Videsh (OVL; 25%), and Sudapet (5%).[105] Since 2006, production has declined from 316,000 barrels to no more than 200,000 barrels per day.[106]

GNPOC's reserves are at the center of ongoing controversy between the GoS and the GoSS due to the concentration of reserves in the contested Abyei region. The demarcation of GNPOC's oil fields will be determined by the North-South Border Commission.[107]

Concession areas currently under GNPOC control were the site of Sudanese government attacks on civilian populations during the civil war as part of a strategy to clear areas for exploration. Government offensives around Block 1 displaced at least 50% of one county's inhabitants, with village clearings involving bombing attacks on civilians and ground attacks by SAF troops and local militias.[108] This has led to claims by Human Rights Watch and the Coalition for International Justice that GNPOC was complicit in these human rights abuses.[109] GNPOC is also reported to have hired Sudanese-government linked militias to provide oil block security.[110]

On multiple occasions between 2007 and 2008, armed groups have attacked GNPOC infrastructure and personnel.[111]

**Melut Basin:** Located in southeastern Sudan, the Melut Basin encompasses the Petrodar consortium's blocks 3 and 7 and includes the Adar-Yale, Great Palogue, Moleeta and Gumry oil fields. The Melut Basin produces nearly 300,000 barrels of Dar Blend Crude per day and has an estimated 460 million barrels in recoverable reserves.[112] This makes the Melut Basin arguably the most productive crude oil stream in Sudan.

**Merowe Dam:** The Merowe Dam is the largest hydroelectric development project in Africa after Egypt's Aswan High Dam.[113] As of April 2010, all ten turbines at the Merowe Dam were reportedly operational, adding the dam's full capacity to the national power grid.[114] The dam's completion roughly doubles Sudan's current generation capacity.[115] With limited exception, it does not appear that the increased power capabilities will benefit marginalized regions. In addition, the government plans to export at least a portion of the power generated, providing additional government revenue.[116]

The Merowe dam project has been linked with numerous reports of violations of civil and political rights "including the shooting of unarmed demonstrators, arbitrary arrests and repressive measures against the media."[117] The dam's construction has also caused the widespread displacement of local communities. By May 2010, it was believed the construction of the Merowe dam had affected 70,000 people, many of whom were displaced.[118]

**Muglad Basin:** The Muglad Basin is located along the border between northern and southern Sudan and includes oil blocks 1, 2, 4, 5A, 5B, 6, B and E.[119] Producing oil blocks in the Muglad Basin are operated through the GNPOC, WNPOC-1 and PetroEnergy E & P consortia. Muglad Basin fields produce Nile and Fula blend crudes, with an average estimated production of 200,000 bpd of Nile Blend and between 36,000 bpd and 40,000 bpd of Fula Blend crude.[120]

**Nile Blend:** With a low sulfur content and high-fuel yield, Nile Blend is classified as "sweet" crude.[121] The blend is primarily made by mixing a minimum of 90% of crude oil from blocks 1, 2, and 4 with a maximum of 11% of crude from Block 5A.[122] Nile Blend production is currently estimated at no more than 200,000 barrels per day.[123] While Sudan has domestic capacity to process Nile Blend crude at its Khartoum refinery, Nile Blend crude is primarily exported to Asian markets.[124]

**National Petroleum Commission (NPC):** Established in October 2005, the National Petroleum Commission (NPC) is mandated by Sudan's Comprehensive Peace Agreement (CPA). The NPC's functions include formulating public policy and guidelines related to the development and management of the petroleum sector in Sudan; monitoring and assessing implementation of these policies; developing strategies and programs for the petroleum sector; negotiating and approving all oil exploration and development contracts in Sudan; and developing internal regulations and procedures.[125]

Since 2007, the NPC has resolved multiple disputes regarding overlapping oil concessions granted by the Sudanese Federal Government and the Government of South Sudan, including over blocks B and 5B.[126]

## Oil Industry

### Exploration and Production

Sudan has proven reserves of five billion barrels, the majority found in the Muglad and Melut basins.[127] There may also be potential reserves in the Blue Nile Basin, the Red Sea, and the Sahara desert.[128] Claims of oil reserves in Darfur are subject to dispute.[129]

Sudan produces three types of crude oil, Nile Blend, Dar Blend and Fula Blend. Sudanese crude, particularly the Nile and Dar blends, is primarily produced for export, as the country's domestic consumption requires only 86,000 bpd of its overall production.[130]

Sudanese oil is typically pumped via pipeline from fields in southern Sudan to refineries and export facilities in northern Sudan.[131] Sudan has the domestic capacity to refine 121,700 bpd of Nile and Fula blend crudes at the Khartoum refinery and 21,700 bpd at the smaller Dar Blend refinery in Port Sudan.[132] Crude oil not processed for domestic use is exported via Port Sudan to Asian markets, primarily China, Japan, India, South Korea, and Indonesia.

Throughout 2008 and 2009, Sudan's crude oil output had averaged approximately 470,000 barrels per day.[133] President Salah Wahbi of Sudapet has announced that Sudan aims to increase its production to 1 million bpd by 2015, through further exploration of the country's sedimentary basins and the use of Enhanced Oil Recovery (EOR) techniques.[134]

Recent developments could alter the export of Sudanese petroleum. South Sudan has announced plans to construct a 50,000 barrel refinery in Warrap State that would source crude oil from Block 5A.[135] South Sudan has also announced its intention to build a refinery to process Dar Blend crude in the southern Upper Nile region; further details on this refinery have yet to be released.[136]
South Sudan may be seeking to increase its capacity to export petroleum through Kenya.[137] This includes a proposed railway line linking the South Sudanese capital of Juba and the existing port of Mombasa or a planned port at Lamu, Kenya.[138] If completed, this could provide an alternate export route for oil sourced from southern Sudanese oil fields.[139]

### Revenue

As of 2009, oil revenues accounted for 50% of Sudan's gross domestic product.[140] These revenues declined by 60% in 2009 due to the fall in world oil prices, a decline that has negatively affected Sudan's economy, slowed economic growth and depleted foreign reserves.[141]

Between 2006 and 2008, the value of Sudan's crude oil exports rose from U.S. $4.7 billion to U.S. $10.8 billion.[142] In 2009, crude oil accounted for nearly 92% of Sudanese exports.[143] This represented between 60 and 70% of non-aid income for northern Sudan, constituting an estimated 45% of the Sudanese national budget.[144]

Revenue from oil is even more important to southern Sudan and is responsible for nearly 98% of the region's non-aid income.[145]

**National Operators**

Sudapet, Sudan's national oil company, holds an investment stake in most oil blocks but does not act as the sole operator of any consortium, due to a lack of resources and technical expertise.[146] For this reason, Sudan's domestic oil industry continues to rely on foreign investment to generate revenue.[147] In a June 2009 interview, Sudapet President Salah Wahbi announced his intention to transform Sudapet into a fully-integrated oil company.[148]

The Government of South Sudan has also established its own oil company, known as the Nile Petroleum Company (Nilepet). Nilepet will be South Sudan's national oil company if the semi-autonomous South votes for and obtains independence in the January 2011 self-determination referendum.[149]

**Petrodar Operating Company Ltd (PDOC):** The Petrodar consortium operates in blocks 3 and 7 and includes CNPC (41%), Petronas (40%), Sudapet (8%), Sinopec (6%), and the Egypt Kuwait Holding Company (5%).[150]

Petrodar has been accused of complicity in forcible displacement due to village destruction within its concession areas. This displacement was reportedly been carried out primarily by the Sudanese Army or government-supported militias.[151] The consortium also has been linked to the environmental degradation of local lands.[152]

**Power Production:** The generation of electrical power in Sudan is primarily focused around the provision of electricity to the Khartoum area and to large, export–oriented agriculture schemes. Sudan's two main power grids cover a small section of the country.[153] Only 22% of Sudan's population currently has access to electricity, with rural areas having very limited access to power.Those not located on the electric grids rely on diesel-powered generators.[155]

The Government of Sudan has pledged to significantly increase access to electricity within the country, and has undertaken a number of major power projects in the country.[156] Despite this pledge, there are serious concerns associated with many of these projects, which often appear to provide minimal benefit to Sudan's marginalized populations while at the same time causing displacement and destruction of livelihood for those directly in the path of construction.

**Red Sea Petroleum Operating Company (RSPOC):** RSPOC is an oil consortium comprised of CNPC (35%), Petronas (35%), Express Petroleum & Gas Co. Ltd. (10%), Sudapet (15%), and HTPG (5%). The consortium has held rights to Block 15 since August 2005.

**Roseires Dam:** The Roseires Dam was initially built on the Blue Nile's Damazin rapids as part of the Gezira irrigation project in 1966.[157] Originally intended solely for irrigation and water storage, the dam also produces 280 megawatts of electricity.[158] The Roseires Dam is set to be heightened ten meters to increase the dam's irrigation and power generation capabilities.[159] The project has been undertaken by a joint venture of Sinohydro and China International Water and Electric (CWE) by a joint and is overseen by Sudan's Dam Implementation Unit.[160] The project may displace local residents as funds have been earmarked for compensation and resettlement.[161]

**The Sudd:** The Sudd is a freshwater wetland area formed by the White Nile River in Southern Sudan, with an area in excess of 30,000 square kilometers.[162] Rich in aquatic life and home to many animals and migratory birds, the Sudd is of importance for international and regional conservation.[163] It is also home to the Nuer, Dinka, and Shilluk people, who rely on the wetland grasses to feed their cattle as well as for fishing, hunting and agriculture.[164]

The Sudd encompasses parts of oil blocks 4, 5A, 5B, and B.[165] Since the end of the north–south conflict, petroleum exploration activities have resumed in the Sudd, save for the yet unexplored Block B concession.[166]

The environmental impact of oil exploration operations in the Sudd have been of concern in the past. Villagers and activists in the area have complained of forced evictions, water contamination, illnesses, the loss of livestock, and the dumping of industrial waste in flood-prone areas.[167] Operators have failed to make significant portions of environmental impact assessments public. A public statement on oil exploration in the region said that "no significant environmental impacts were identified, either during normal operations or in an emergency situation."[168]

This appears to be contradicted by a recent report by German non-governmental organization Sign of Hope alleging that WNPOC-1 contaminated local water supplies in Block 5A. This contamination has the potential to affect at least 300,000 people in Unity State and spread disease among humans and cattle.[169]

**United Nations Global Compact (UNGC):** The UNGC is "a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption."[170] The UNGC identifies its objectives as twofold: to mainstream its ten principles in business activities around the world, and to catalyze actions in support of broader UN goals, including the Millennium Development Goals.[171]

While the UNGC contains avenues for civil society engagement with these companies, there is no mechanism to enforce the principles on signatories.[172] In general, it is at a company's discretion how, and to what extent, it will participate in the UNGC or follow its principles.

The UNGC launched the UNGC Network Sudan in December 2008, during which more than 150 senior representatives of business, the United Nations, government, and civil society organizations convened in Khartoum.[173]

**Weapons Prohibitions:** As a result of the armed conflicts between north and south and in the Darfur region there are a number of initiatives aimed at stemming the flow of arms to Sudan. The following is a summary of key initiatives.

**The Comprehensive Peace Agreement (North-South Sudan)**

The Comprehensive Peace Agreement (CPA) allows for the re-arming of the Sudanese Armed Forces (SAF) and the Sudanese People's Liberation Army (SPLA). Yet, it prohibits the "[r]eplenishment of ammunition, weapons and other lethal or military equipment" by either the SAF or the SPLA within an agreed Ceasefire Zone.[174] However, it does accommodate either party's "[m]ilitary activities including movement…reinforcement…permitted by the Joint Defence Board (JDB)." [175] The JDB, a joint partnership between the SPLA and the SAF, is expected to inform the UN Peace Support Mission of 'permitted current and future activities.' [176] It is important to note that the Ceasefire Zone covers, among other areas, all of southern Sudan.[177] Consequently under the CPA, the SAF can veto re-supplying the SPLA, but the SPLA cannot do the same with regards to SAF re-armament outside of the Ceasefire Zone in the north of the country. The JDB does not appear to be currently active in scrutinizing arms buildup by either the SAF or the SPLA and both parties have been effective in thwarting the JDB's efforts to monitor arms movements in Southern Sudan.[178]

**The UN Arms Embargo (Darfur)**

The initial UN Security Council arms embargo on Darfur was imposed in July 2004 on non-state parties involved in the conflict in Darfur.[179] The Security Council expanded the prohibition in 2005 to include 'the parties to the N'Djamena Ceasefire Agreement and other belligerents'—including the SAF—across Darfur.[180]

The UN Security Council has established a Sanctions Committee to assess alleged violations of the embargo. The committee interpreted sanctions as applying only to transfers of military equipment within Darfur and not to Sudan as a whole.[181] The embargo permits the Sudanese Government to transfer military equipment and supplies into Darfur, provided the UN Sanctions Committee gives advanced approval.[182] Though the Sudanese Government has never sought such approval it has regularly moved weapons and military equipment into Darfur.[183] In October 2009, a UN Panel of Experts concluded that many of the major armed actors in Darfur, including the SAF and JEM, continue to violate the UN arms embargo on Darfur.[184]

### U.S. Sanctions

In 1997 the U.S. imposed a trade embargo on Sudan after the U.S. identified the country as a state sponsor of terror.[185] The trade of arms to Sudan is banned under this designation. The U.S. government, however, does provide non-lethal equipment to support security reform in south Sudan under the conditions of a 2007 presidential waiver.[186]

### European Union Arms Embargo

An EU arms embargo has been in place on all governmental and non-governmental parties in Sudan since 1994. This embargo was strengthened in 2004 to encompass brokering, technical, transport and other assistance relating to military activities and equipment.[187] It is legally binding on all 27 EU member states and their nationals.[188] While the embargo covers a wide range of activities relating to the sale of military equipment to Sudan, it leaves it to the member states to develop and enforce a penalty regime for breaches.[189] Despite the comprehensive nature of this embargo, it is limited by inadequate end-use monitoring by exporters and poor risk assessment, permitting the diversion of arms to third countries.[190]

**Weapons Trade:** The weapons and military equipment of several countries have been identified in Darfur since the start of the conflict.[191] This includes Chinese and Russian military equipment and aircraft used against civilians.[192] A previous Sudanese Finance Minister has stated that more than 70% of the Sudanese Government's share of oil revenues was spent on its military at the beginning of the Darfur genocide.[193]

Small arms are the predominant weapon used in conflicts across Sudan. Several countries are involved in the small arms trade with Sudan,[194] with China, Iran, Russia and Belarus reported as the Government of Sudan's major suppliers.[195] According to the Small Arms Survey, more than 90% of the Sudanese government's self-reported small arms and light weapons imported between 2001 and 2008 were sourced from Iran and China.[196] Reports have alleged a link between China's sales of military equipment and small arms, with its bid to secure African oil supplies and access to African markets.[197] Sudan's purchases of Chinese weaponry appear to have continued in 2009, with the purchase of an unknown number of MLRS launchers.[198]

Sudan's ability to produce weapons has been enhanced by Chinese assistance, including: technology transfers, training, supervision of weapon development, and the construction of weapons factories.[199]

Sudan has reportedly bought multiple fighter jets from Russia and Belarus, including a shipment of 12 MiG-29s delivered between 2003 and 2004.[200] Armed opposition groups operating in Darfur are reportedly receiving weapons, including artillery and small arms from the Ukraine.[201]

In recent years, large sums have been spent by the Khartoum- and Juba-based governments on weapons. In 2006, the semi-autonomous Government of South Sudan's (GoSS) military spending was estimated at U.S. $555 million, while the Sudanese National Government spent approximately U.S. $1.75 billion.[202] The increased weapons purchases and military exercises of the SPLA are attributed to its long-term strategic goals of upgrading and professionalizing its capabilities and transforming itself into a national army in the event of South Sudanese independence.[203] The recent decline in oil prices has likely already reduced the GoSS expenditures on arms, as evidenced by the U.S. $448 million budgeted for weaponry in 2009 compared to peak expenditures of U.S. $916 million in 2008.[204]

Increased weapons expenditures by both the Sudanese military and the SPLA are cause for concern, given the potential conflict triggers in Sudan.[205] Ongoing acquisitions of weaponry by conflict parties in Sudan may also lead to greater arms proliferation and insecurity across Sudan.[206]

The Small Arms Survey's recent study of the weapons flow in Sudan concluded that despite arms embargoes and prohibitions, the transfer of arms to all parts of Sudan continues apace and is in some cases actually increasing.[207] The study argues that the current patterns, actors and methods of distributing arms to and within Sudan, appear to be similar to those seen during the last civil war between the north and the south. The arms supplies are “mediated by well-established state sponsors in the region and internationally.”[208] The major facilitators though are private arms brokers, financiers, and transport actors from a diverse group of countries, including EU member states, extending beyond the traditional suppliers.[209]

The Small Arms Survey contends that the supply of weapons to non-state actors within Sudan largely originates from inventories of governments in the region, particularly the Sudan military, and is distributed through a variety of supply mechanisms.[210] This is supported by the findings of the UN Panel of Experts, which states that ammunition and weapons initially delivered to the Government of Sudan may be in the possession of non-state actors.[211]

**White Nile Petroleum Operating Company (WNPOC):** WNPOC operates two blocks in Sudan: 5A and 8. Until 2009 it also operated Block 5B, now operated by the Moldovan firm Ascom.[212]

WNPOC-1 operates Block 5A and includes Petronas (68.875%), OVL (24.125%), and Sudapet (7%). Lundin Petroleum (Lundin) was originally a member of this consortium, but sold its share to Petronas in 2003. As of November 2010, Block 5A is WNPOC-1’s only producing block.

The WNPOC consortium has been linked with negative social and environmental impacts in Block 5A. This includes charges that the WNPOC consortium operating the block contaminated the local water supply, affecting at least 300,000 people in Unity State, spreading disease to humans and cattle, and threatening the Sudd.[213] During the civil war fought between the north and south from 1983 to 2005, serious abuses occurred in the Block 5A concession, including indiscriminate attacks and intentional targeting of civilians living within the block’s boundaries.[214]

WNPOC-3, which operates Block 8, includes Petronas (77%), Sudapet (15%), and Hi–Tech Petroleum Group Co. Ltd. (HTPG) (8%) and is currently under exploration.[215]

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