

Unofficial English Translation

To Norges Bank

28 February 2020

**Recommendation to exclude PetroChina Co Ltd from investment by the
Government Pension Fund Global (GPF)**

Summary

The Council on Ethics maintains its recommendation of December 2016 to exclude PetroChina from the Government Pension Fund Global (GPF) due to an unacceptable risk that the company contributes to or is responsible for gross corruption. The company has been under observation since May 2017, but has shown little willingness to communicate with the Council on Ethics. As a consequence, central questions related to PetroChina's follow-up of previous corruption allegations and the company's handling of corruption risks in its operations abroad are still unresolved. The Council on Ethics also believes that the company's lack of assistance in shedding light on the situation gives grounds to question PetroChina's actual willingness to prevent, detect and deal with corruption.

1 Introduction

In December 2016, the Council on Ethics recommended that PetroChina Co Ltd (PetroChina) be excluded from investment by the Government Pension Fund Global (GPF) due to the risk of gross corruption.

Many senior executives in various of PetroChina's divisions and subsidiaries were under investigation for accepting bribes in exchange, for example, for the award of oil and gas contracts to suppliers. In some of these cases, the alleged corruption stretched over a period from 1980 right up until 2014, and involved large sums of money.

The Council's assessment of future risk was based on three decisive elements. The first was the corruption risk in the countries and in the sector in which the company operates. Here, the Council *inter alia* pointed out that the oil and gas industry, where large public contracts are common, exposes the company to corruption risks. The second was that PetroChina had not sufficiently demonstrated that future violations would be prevented, detected and dealt with. In this regard, the Council pointed out that PetroChina provided little concrete information on its anti-corruption programme and how this was implemented in the organization. The Council was of the opinion that the company had not sufficiently demonstrated that it had an anti-corruption programme which was organized and implemented in accordance with international standards. The third element which the Council attached importance to was that the majority of those who ran the company when the alleged corrupt acts took place still held leading positions in the company when the recommendation was made.

On 5 May 2017, Norges Bank decided to place PetroChina under observation, since it was felt that the company's anti-corruption initiatives provided sufficient grounds to observe developments going forward. Since that time, the Council has monitored how the company is working to develop and implement its anti-corruption programme. The Council has also monitored whether any new allegations of corruption have emerged. In this connection it is mentioned that the company can be linked to a corruption investigation in Ecuador which officially is referred to as the "PetroChina Affair". As far as the Council is aware, this investigation is still ongoing.

2 The work of the Council in the observation period

The Council submitted an observation letter to Norges Bank in 2018. The Council was then of the opinion that there still was a high risk that PetroChina again could be involved in

corruption, especially in its international operations, but did not recommend exclusion. The reason for this was that the company had shown willingness to share more information with the Council than before, and that a relatively short period of time had elapsed since its observation of the company commenced.

However, since the observation letter was submitted, PetroChina has not answered the questions which still were unresolved after the observation in 2018. Nor has the company responded to new questions which were raised in connection with the observation in 2019. The Council on Ethics contacted PetroChina in May and June 2019 to elicit answers to questions remaining after last year's observation, as well as new questions relating to the company's international business operations. Among other matters, the Council asked PetroChina to provide details of how it identifies and assesses corruption risk, of its action plan and guidelines for preventing and dealing with corruption, its anti-corruption training activities, third-party due diligence investigations and handling of whistleblower reports, as well as the follow-up of an ongoing corruption investigation outside of China. There is little to be gleaned on these topics from PetroChina's annual reports and website. The company has not replied to the Council's repeated inquiries.

Due to the lack of response from the company, the Council on Ethics sent a new draft recommendation to the company in the autumn of 2019. The company has responded to this draft in their letter of 26 November 2019. This letter provides general information about the company's anti-corruption work, but no information which answers any of the Council's remaining questions.

3 The Council's assessment

The Council on Ethics' original recommendation of December 2016 concluded that there was an unacceptable risk that PetroChina had previously been involved in gross corruption. In the observation period the Council has first and foremost considered whether the company has put in place adequate compliance systems which can prevent the company from being involved in similar activities in the future.

To be able to assess the risk of corruption, the Council must have a clear overview of the structures, systems and processes a company has established to prevent and detect corruption. However, obtaining such an overview is possible only if the company is willing to share sufficient information with the Council.

In its 2018 observation report, the Council confirmed that PetroChina had over the course of that year shared more information than it had provided while the Council was working on its original recommendation. At the same time, the Council pointed out that it still knew little about what the company was doing in practice to prevent, detect and deal with corruption in its operations. In 2019, PetroChina has failed to reply to the Council's requests for answers to the questions it still had after the previous year's observation. Nor has it replied to the Council's questions relating to corruption risk management in the company's international operations. As a consequence, central questions related to PetroChina's follow-up of previous corruption allegations and the company's handling of corruption risks in its operations abroad are still unresolved. Furthermore, the company's lack of assistance in shedding light on the situation gives grounds to question PetroChina's actual willingness to prevent, detect and deal with corruption. Given the business sector and the countries in which PetroChina operates, as well as the company's history of widespread corruption, the Council finds that this does not provide sufficient certainty that the company's anti-corruption efforts are adequate.

Due to the company's lack of willingness to communicate with the Council, the Council on Ethics finds that the purpose of the observation cannot be fulfilled. The company's lack of assistance in shedding light on the situation has two dimensions. Firstly, it is of general importance that a company under observation is willing to share information, so that the observation arrangement can function as intended. Secondly, it gives grounds to question PetroChina's actual willingness to prevent, detect and deal with corruption. In this connection, the Council refers to Report No. 20 (2008-2009) to the Norwegian Storting (parliament) which states that: "a lack of information about a company's behaviour, and, not least, a lack of willingness on the part of a company to contribute information can, in and of itself, contribute to the risk of complicity in unethical conduct being regarded as unacceptably high." On this background the Council on Ethics therefore finds that there is no basis for continuing the observation of the company. Nor is there a basis for the Council to conclude that the risk that PetroChina once again may be involved in gross corruption is reduced. On this background the Council maintains its recommendation from 2016 to exclude the company due to an unacceptable risk that the company contributes to or is responsible for gross corruption.

4 Recommendation

The Council on Ethics maintains its recommendation of December 2016 to exclude PetroChina from the Government Pension Fund Global (GPF) due to an unacceptable risk that the company contributes to or is responsible for gross corruption.

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