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Berkshire Defends PetroChina Stake Amid Sudan Ties

By Jonathan Stempel

NEW YORK — Warren Buffett's Berkshire Hathaway Inc. is defending its investment in Petrochina Co., amid concern the Chinese oil company is too closely linked to genocide in Sudan.

Berkshire said in a posting on its Web site on Wednesday it has received comments from the media, shareholders and others questioning its PetroChina stake. PetroChina's government-owned parent China National Petroleum Corp. (CNPC) operates in Sudan. Berkshire began amassing its stake in 2002.

Violence in Sudan's Darfur province has resulted in an estimated 200,000 deaths, and 2.5 million people being driven from their homes since 2003.

As of December 31, 2005, Berkshire owned 2.35 million PetroChina Class H shares, making it the company's largest U.S. investor, according to Thomson ShareWatch. It also owned 659,000 American depository receipts worth $92.77 million as of December 31, 2006.

Berkshire, an Omaha-based insurance and investment company, said conditions in Sudan are "deplorable," but rejected the argument that divesting its PetroChina stake would be appropriate, or would affect Sudanese behavior.

"We have seen no records, including the various materials we have received from pro-divestment groups, that indicate PetroChina has operations in Sudan," Berkshire said.

It added, though, if that were not the case, "we do not believe that Berkshire should automatically divest shares of an investee because it disagrees with a specific activity of that investee."

Berkshire spokeswoman Debbie Bosanek confirmed the Web site posting was authentic.

"It's very unusual for Berkshire to respond like this," said Whitney Tilson, a managing partner at T2 Partners LLC, which invests $150 million in hedge fund capital. "Clearly, they're feeling a lot of heat." Berkshire is T2's largest investment.

Berkshire said CNPC's only feasible divestment plan would be to sell its 40 percent stake in a Sudan oil venture, "almost certainly at a bargain price and almost certainly to the Sudanese government.

"After such a transaction, the Sudanese government would be better off financially," Berkshire continued. "Proponents of the Chinese government's divesting should ask the most important question in economics, 'And then what?'"

In a February 11 column, New York Times columnist Nicholas Kristof highlighted the PetroChina investment.

"I have huge respect for Mr. Buffett, and he may be thinking: 'My obligation is to make money for shareholders, not to use their investments in a dubious attempt to save the world,'" Kristof wrote. "In this case, the cost of divestment to fund managers or investors is negligible."

Tilson, who said his father works for a non-governmental organization helping to build educational systems in southern Sudan, said he supports Berkshire's decision not to divest.

"At the time I read Nicholas Kristof's article, as a Berkshire shareholder, I felt torn," he said. "Berkshire's response put my mind at ease that the company is doing nothing wrong in maintaining its investment."

A New York Times spokeswoman said Kristof was unavailable for comment.

Berkshire's Class A shares closed Thursday down $340 at $107,360 on the New York Stock Exchange.