

Commentary as to Berkshire's holdings in PetroChina Company Limited

We have received several communications from the media, shareholders, and others questioning Berkshire's investment in PetroChina because of the atrocities that are occurring in Sudan. Berkshire agrees that conditions in that country are deplorable and sympathizes with people who want to remedy them. We believe, however, that they are wrong in both their analyses of PetroChina's connection to these conditions and their belief that our divesting our PetroChina holdings would in any way have a beneficial effect on Sudanese behavior.

To begin with, we have seen no records, including the various materials we have received from pro-divestment groups, that indicate PetroChina has operations in Sudan. The controlling shareholder of PetroChina, CNPC, *does* do business in Sudan. CNPC is 100% owned by the Chinese government, and its activities may logically be attributed to the government of China itself. But the Chinese government's activities can neither be attributed to PetroChina nor the other major Chinese companies the government controls (also through 100%-owned entities), such as China Mobile, China Life and China Telecom. Subsidiaries have no ability to control the policies of their parent.

To understand that truth, simply look at Fannie Mae and Freddie Mac. Both are creations of the U.S. Government and indeed are commonly labeled Government Sponsored Enterprises (GSE). Five directors of each company are appointed by the President, and both are overseen by a special governmental entity, OFHEO.

Does the United States government shape and in certain matters control the activities of Fannie Mae and Freddie Mac? Unquestionably. Are Freddie Mac and Fannie Mae responsible for the activities of the U.S. government? Absolutely not.

Furthermore, if a shareholder such as Berkshire disagrees with the activities of an investee – and we emphasize again that PetroChina, to our knowledge, has no operations in Sudan – is divesting the proper course for Berkshire? We do not believe that Berkshire should automatically divest shares of an investee because it disagrees with a specific activity of that investee.

Finally, in the proposition that China should “withdraw” its investment from Sudan, there is the “be careful what you wish for” problem. As we understand the matter, the Chinese government, through its 100% ownership of CNPC, owns a 40% interest in a Sudan venture whose primary assets consist of oil in the ground as well as fixed assets that transport and refine the oil. These are not assets that can be taken out of Sudan. In other words, China cannot take its share of the oil, the refinery or the pipeline and go home.

Rather, the only feasible divestment plan for CNPC would be to sell its 40% interest in the 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, with its oil revenue substantially increased. Since oil is a fungible product, Sudanese output would be sold in world markets just as oil from Iraq was sold under Saddam Hussein, and just as oil is now sold by Iran. Proponents of the Chinese government's divesting should ask the most important question in economics, “And then what?”