To the Ministry of Finance
11 September 2014
UNOFFICIAL ENGLISH TRANSLATION

Recommendation concerning Soco International plc.
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1 Summary

The Council on Ethics no longer recommends the exclusion of SOCO International plc. (SOCO) from the Government Pension Fund Global (GPFG). On 17 October 2012, the Council recommended the exclusion of SOCO from the GPFG due to an unacceptable risk that the company would be responsible for severe environmental damage through its oil and gas activities in Virunga National Park in the Democratic Republic of the Congo (DRC). The Ministry of Finance has not made any decision on the matter.

SOCO has interests in block V in eastern DRC. Block V largely overlaps with Virunga National Park, which also has the status of a UN (UNESCO) world natural heritage site. SOCO has an 85 per cent share in, and is the operator of, a joint venture engaged in petroleum exploration in block V. SOCO has surveyed petroleum resource deposits in block V in Virunga National Park, and has planned further activities in the park.

The Council on Ethics’ 2012 recommendation concerned the risk of environmental damage caused by SOCO’s future activities in Virunga. Virunga National Park is among the world’s most bio-diverse protected areas. In June 2014, SOCO concluded an agreement with WWF that it would not engage in further exploration or drilling activities in Virunga for as long as the park has world heritage site status. In its letter to the Council of July 2014, the company confirmed that it has ceased its activities in Virunga.

Since the company’s activities have ceased, the Council on Ethics considers that there is no longer an unacceptable risk that the company will be responsible for severe environmental damage in Virunga. Accordingly, the basis for the exclusion recommendation has lapsed. The Council thus no longer recommends the exclusion of the company from the GPFG.

2 Background

SOCO is an oil and gas company with activities in Vietnam, the Republic of the Congo (Brazzaville), the DRC and Angola. The company is headquartered in London, where it is also listed on the stock exchange.

SOCO has an 85 per cent ownership interest in block V in eastern DRC through its subsidiary SOCO Exploration and Production DRC Sprl. The state-owned company La Congolaise des Hydrocarbures (Cohydro) has a 15 per cent ownership interest. SOCO is the operator of the joint venture. Large parts of block V overlap with Virunga National Park.

Virunga National Park is the oldest national park in Africa. It is also one of the largest on the continent, and lies in the most bio-diverse part of continental Africa. Due to its exceptionally important values, the national park has received several international protection statuses, including as a UN (UNESCO) world natural heritage site and as a Ramsar Site (wetlands of international importance). The park forms part of one of the most bio-diverse protected areas globally. At the same time, the park is threatened and has been included in UNESCO’s List of World Heritage in Danger.¹

¹ As at August 2014, Virunga was one of 20 world natural heritage sites on the list (http://whc.unesco.org/en/danger/).
On 17 October 2012, the Council on Ethics recommended the exclusion of SOCO from the GPFG due to an unacceptable risk that the company would be responsible for severe environmental damage in Virunga National Park and World Heritage Site.

The heart of the matter was the future risk that exploration and production activities would cause severe environmental damage to the natural values in the park. The Council on Ethics gave particular emphasis to the fact “that Virunga National Park and World Heritage Site is a large, important protected area that is home to globally unique values, including an unusually large variation in habitats and an extremely high diversity of species. The national park features many rare and threatened species. Among other things, the area is a UN World Heritage Site and a wetland of international significance under the Ramsar Convention, and is included in most global lists of biodiversity and nature conservation priorities. The Council would point out that there are very few nature and conservation areas in the world that can compete with Virunga National Park in terms of its richness of biodiversity.”

The Council also highlighted the vulnerability of and threats to the area, and emphasised that the UN has included Virunga National Park on its List of World Heritage in Danger. “Oil and gas activities in the area will have severe, negative consequences for the national park. The Council considers it likely that oil and gas activities in the park also will result in increasing numbers of people moving to the area. Indirectly, this will increase the pressure on the natural resources in the park, as people moving to the area in the hope of finding work and income are highly likely to meet some of their food and energy needs by gathering natural resources illegally in the park. This will put further pressure on a vulnerable area in which park managers have few resources to deal with a range of serious threats to a large area.”

The Council also took the view that, “Given the current situation in and around the vulnerable national park, there do not appear to be any mitigating measures capable of preventing severe damage to the national park’s natural values if SOCO explores and potentially produces oil or gas in the national park. As regards preventing damage to the world heritage site, the Council takes the view that only a stop in SOCO’s activities in the parts of block V that lie in the national park will have a sufficient impact. SOCO is clear regarding its intentions and plans, and has stated that it has received the necessary licences from the DRC authorities to begin surveying potential oil and gas resources in the park. The Council therefore considers the future risk of severe environmental damage to be great.”

3 Changes in block V activities

On 11 June 2014, it was announced that SOCO had concluded an agreement with the World Wide Fund for Nature (WWF), in which it pledged “not to undertake or commission any exploratory or other drilling within Virunga National Park unless UNESCO and the DRC government agree that such activities are not incompatible with its World Heritage status.” The agreement also contains a commitment by SOCO not to engage in any form of activity in any world heritage site: “SOCO commits not to conduct any operations in any other World Heritage site. The company will seek to ensure that any current or future operations in buffer zones adjacent to World Heritage sites, as defined by the national government and UNESCO, do not jeopardise the Outstanding Universal Value for which these sites are listed.”

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The company wrote that it intended to complete its programme of works in Virunga, which was expected to conclude in mid-July 2014.\(^3\)

The Council on Ethics wrote to SOCO on 4 July 2014. Among other things, the Council asked whether the company intended to engage in a process with the DRC authorities aimed at facilitating future activities in Virunga. In its reply, SOCO confirmed the following: “We will honour our investment obligations regarding environmental baseline studies and social projects for as long as we have licence over Block V, a significant portion of which is outside VNP. We confirm that SOCO is not, and will not be, involved in any discussions between the Government of the Democratic Republic of Congo and UNESCO regarding the convention governing the administration of the VNP... However, should UNESCO and the DRC Government reach an accommodation on the convention that would allow further activity within VNP [Virunga National Park] or surrounding areas, the Company would then assess any further activity on its part within the economic and reputational parameters that are a consideration in all of our project evaluations.” SOCO also wrote that it would take 12–18 months to evaluate the production potential of the block.\(^4\)

At the World Heritage Committee meeting in June 2014, the committee reiterated that petroleum activities are irreconcilable with Virunga’s status as a world heritage site, and once again asked the DRC authorities to exclude the park from the exploration licences. UNESCO also asked SOCO to submit a written statement to UNESCO on its position regarding Virunga and other world heritage sites.\(^5\)

4 The Council on Ethics’ assessment

The Council on Ethics has assessed whether the basis for the recommendation to exclude SOCO still exists, given that the company’s activities in block V and Virunga National Park have changed. In its recommendation, the Council had emphasised that severe environmental damage could only be avoided if the company’s activities in Virunga stopped.

Based on information received from SOCO, the Council on Ethics has concluded that SOCO’s exploration activities in Virunga have now ceased, and that the company will not engage in exploration and production activity in the world heritage site in future. Given that SOCO is no longer engaged in activities in the area, there is no risk that that company will be responsible for severe environmental damage, and the recommendation basis has thus lapsed.

However, the Council on Ethics will reassess the risk of severe environmental damage if the company resumes its activities in Virunga, irrespective of any changes to the borders of the world heritage site.

5 Recommendation

The Council on Ethics no longer recommends the exclusion of SOCO from the investment universe of the Government Pension Fund Global.

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\(^3\) See footnote 2.

\(^4\) SOCO’s letter to the Council on Ethics, 8 July 2014.

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