

Harvard ACSR statement on PetroChina

In April 1999, CNPC announced its plans to sell \$10 billion shares on the New York Stock Exchange. Human rights groups and others objected to the initial public offering, contending that the deal would be tantamount to U.S. support for genocide in [southern] Sudan. In response, CNPC restructured the transaction. It created a new subsidiary, PetroChina, which would operate only inside China, to be owned 90% by CNPC and 10% by private investors. On April 6, 2000, \$2.9 billion dollars of shares in PetroChina were sold on the New York Stock Exchange to private investors. At that time, CNPC's investment bankers from Goldman Sachs asserted to investors that none of the money raised in the IPO would be used to fund CNPC's projects in Sudan. [*Post* article; China's Involvement in Sudan: Arms and Oil, Human Rights Watch, November 2003 (Human Rights Watch Report).]

Despite CNPC's assurances, several potential investors viewed with considerable skepticism CNPC's firewall strategy. Opponents of the IPO pointed out that when PetroChina was created, it incurred \$15 billion in debt from CNPC, some of which was incurred in connection with the GNPOC project. [Human Rights Watch Report.] Fund managers were skeptical that PetroChina could make independent business decisions because CNPC owned 90% of its shares. As a result of these concerns, several major institutions, including such pension funds as TIAA-CREF and Calpers, elected at the time of the IPO not to invest.

Within the past few months, there have been further complaints that "[t]ransparency in the relationship between PetroChina and CNPC is so poor that investors are often in the dark about potential cross-subsidies." ["Assets Plan for PetroChina in Global Drive," *The Standard*, October 25, 2004.]

In an effort to determine whether PetroChina can exercise independence from CNPC despite CNPC's 90% ownership interest in it, the subcommittee examined the management of the two companies. The results of that review were striking. The Chairman of PetroChina is the President of CNPC; PetroChina's legal counsel is CNPC's President; PetroChina's Vice Chairmen, Executive Directors, and Non-executive Directors are also CNPC's Vice Presidents; and the four subcommittees of PetroChina's Board of Directors contain substantial representation from CNPC. Indeed, the investment and development subcommittee of the board of PetroChina is comprised solely of two Vice Presidents of CNPC.