

PESD National Oil Company Case Study:

**China National Petroleum Corporation
(CNPC): Corporate Governance
and Ownership**

BinBin Jiang

April 19, 2007

<http://pesd.stanford.edu/>

I. Performance and Strategy of CNPC

Company	Revenue (\$ billions)	Net Profit (\$ billions)	Total Capex (\$ billions)	Total Costs (\$ billions)	Capex as % of total cost	Production (thousand barrels/day)	Market Capitalization (\$ billions)
Exxon Mobil	339.9	36.1	19.9	310.2	6%	4237	434.06
Royal Dutch Shell	306.7	25.3	22.9	263.0	9%	3473	217.99
British Petroleum	267.6	22.3	17.2	253.6	7%	3926	213.8
PetroChina	89.0	21.0	11.4	60.7	19%	2273	211.96
Chevron	189.5	14.1	13.8	138.5	10%	2667	161.73

- Standard Metrics: PetroChina Excellent Performance
- However...
 - Standard metrics only core (PetroChina) operations
 - non-core separated (CNPC)
 - Allows PetroChina to shift risks off books
 - E.g., overseas unproductive operations

II. Chinese SOEs: Three tiers of governance

State-owned Assets Supervision and Administration Commission (SASAC)
China Banking Regulatory Commission (CBRC)

State Holding Companies (e.g., CNPC, Sinopec)

State Limited Liability Companies
(e.g., PetroChina)

II. CNPC: Centralized and Shared Decision-making

CNPC Planning Bureau prepares 5-yr plan

Regional offices and subsidiaries submit investment plans

Planning Bureau integrates individual plans and submits

Final Approval from Board of directors
and State Council

II. De facto governance within PetroChina

CNPC

Jiang Jiemin	President
Zheng Hu	Vice President
Zhou Jiping	Vice President
Duan Wende	Vice President
Wang Yilin	Vice President
Zeng Yukang	Vice President
Gong Huazhang	CFO
Wang Fucheng	Chief of Discipline & Inspection Group
Liu Haisheng	Chief of Discipline & Inspection Group
Liao Yongyuan	Assistant President
Xu Wenrong	Assistant President
Wang Dongjin	Assistant President

PetroChina

Chen Geng	Chairman
Jiang Jiemin	Vice chairman
Jiang Jiemin	Excecutive director
Zheng Hu	Nonexceutive director
Zhou Jiping	Nonexceutive director
Duan Wende	Excecutive director
Wang Yilin	Nonexceutive director
Zeng Yukang	Nonexceutive director
Gong Huazhang	Nonexceutive director
Jiang Fan	Nonexceutive director
Chee-Chen Tun	Indep nonexecutive director
Franco Bernabe	Indep nonexecutive director
Li Huaqi	Indep nonexecutive director
Liu Hongru	Indep nonexecutive director
Wang Fucheng	Supervisor chairman
Wen Qingshang	Supervisor
Sun Xianfeng	Supervisor
Xu Fengli	Supervisor
Qin Gang	Supervisor
Li Yongwu	indep supervisors
Wu Zhipan	indep supervisors
Liao Yongyuan	other senior management
Wang Guoliang	other senior management
Jia Chengzao	other senior management
Hu Wenrui	other senior management

- Less than one third of directors are outsiders compared to 75% in western companies
- Yellow names represent overlapping personnel between CNPC and PetroChina

III. Political influence over corporate governance

- All managers appointed by SASAC with no input requested from the board.
- Managers focused on keeping company in line with government ideology and maintain stability more than economic development.
- Heavy infiltration of insiders make it difficult to expel poor performing managers and avoid corruption

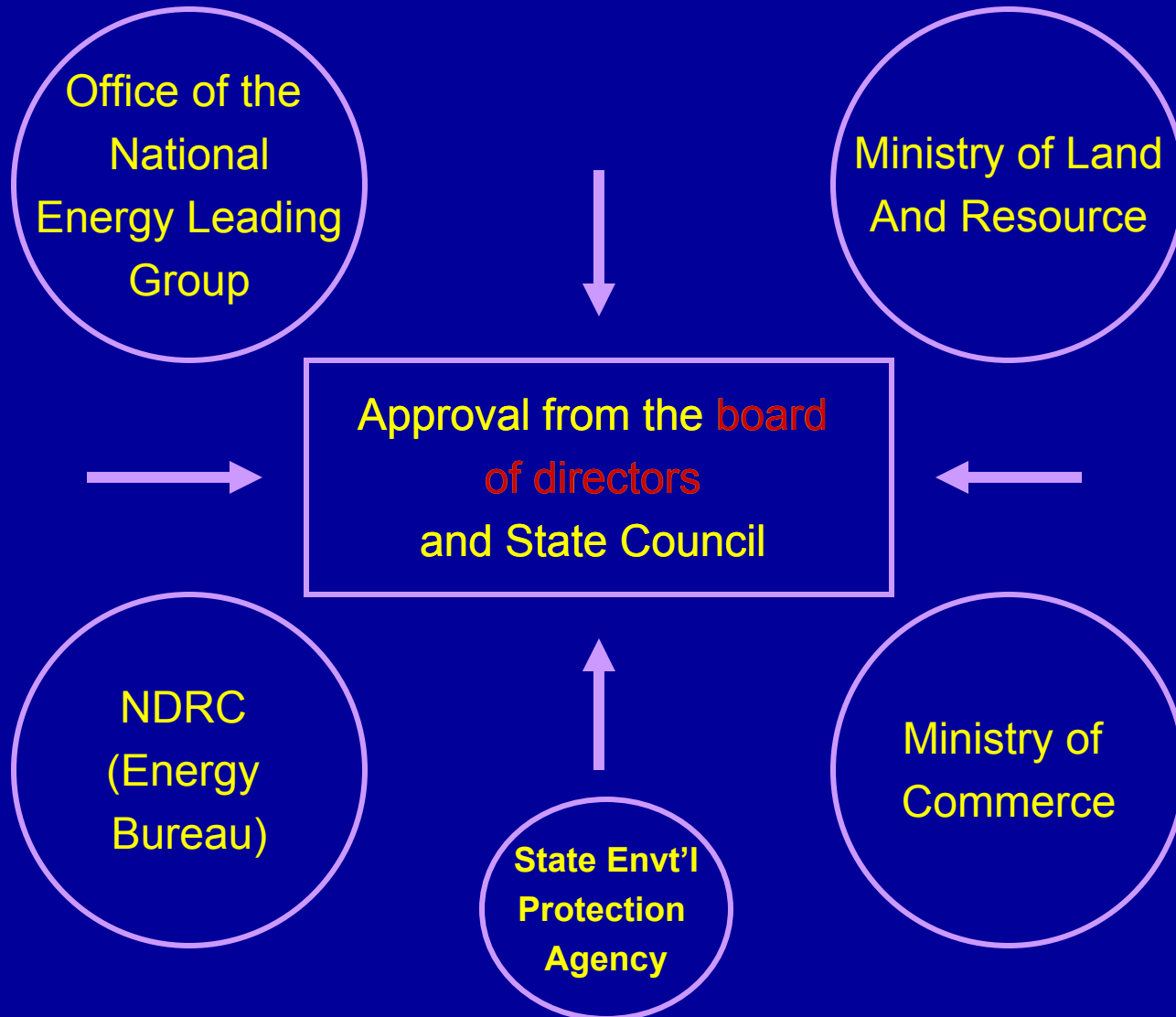
Thank You

<http://pesd.stanford.edu/>

IV. Main conclusions

- Current corporate governance strategies unlikely to change without a radical change in the political system.
- Implementation of current and past reforms have resulted in a change in the formal organization of NOCs, but not in corporate governance and ownership.
- There is no objective third-party organization that acts as a check against the government/CNPC in the regulation of SOEs.
- Lack of an adequate corporate governance and ownership system will likely be the main obstacle to improving the performance of CNPC.

II. Government Involvement



IV. Performance of CNPC

- CNPC has complete control over commercial contracts with PetroChina, PetroChina obliged to maximize benefits for CNPC.
- 86% of PetroChina's profits go to CNPC
- PetroChina takes on little risk by operating best performing core assets of Chinese oil industry and no risky overseas development
- Shifting funds from one pocket to another to give illusion of profitability in order to garner international support for corporatization and boosts confidence in China's oil sector.

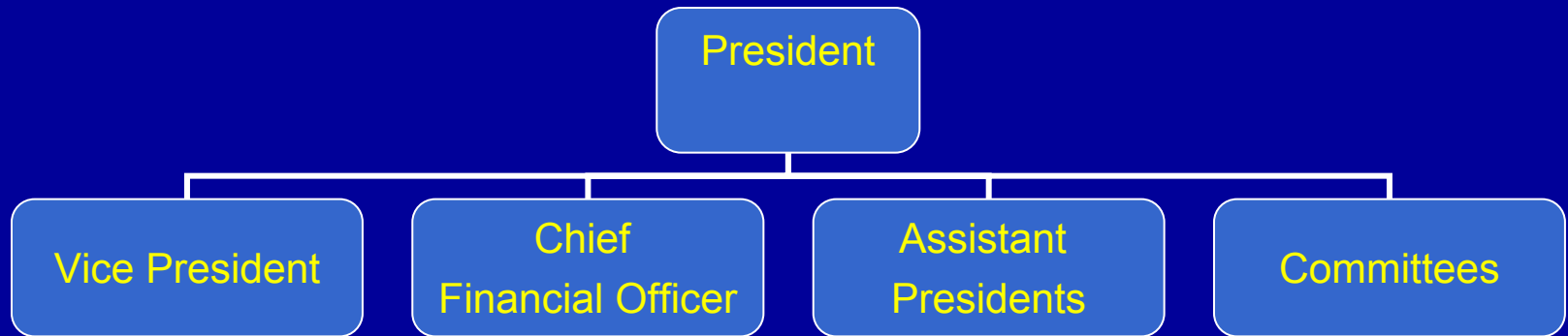
II. Theoretical governance within PetroChina

PetroChina Limited Liability

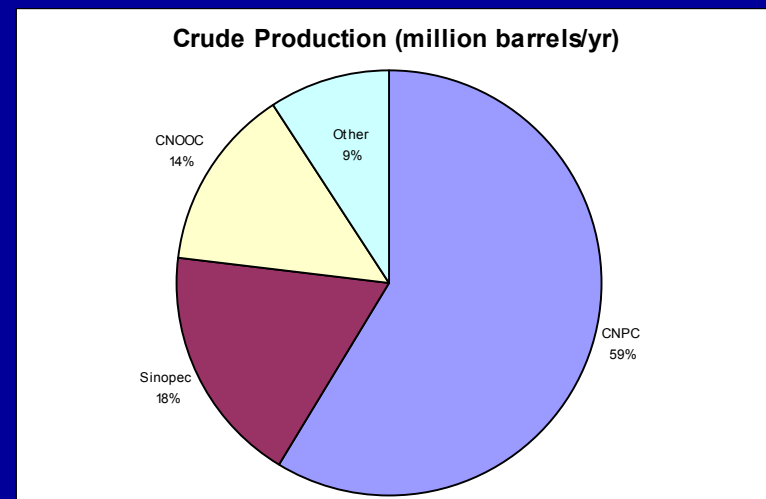
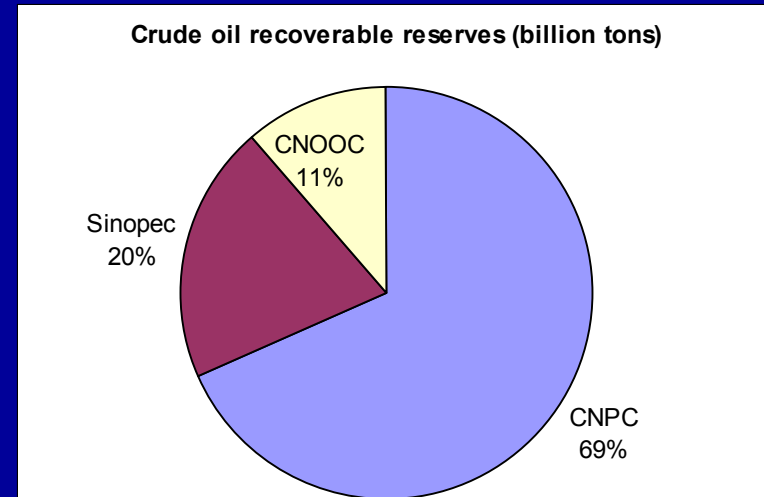
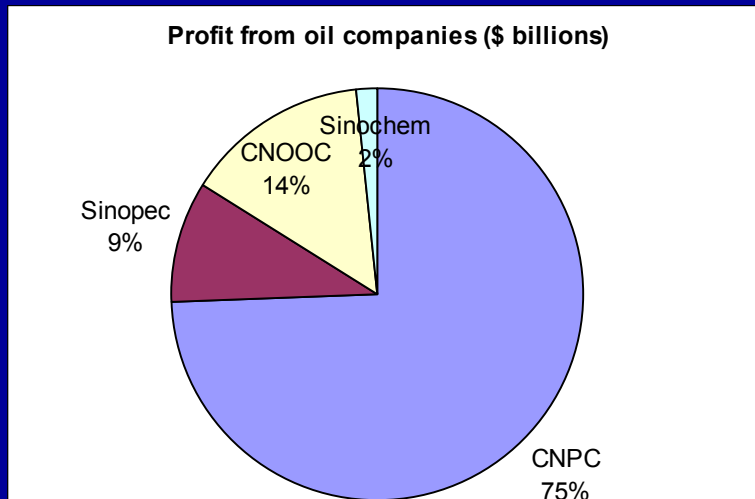


II. De facto governance within CNPC

CNPC Parent Company



I. CNPC dominates the Chinese oil industry



Source: Company annual reports 2006, CNPC 2007

II. Theoretical governance within PetroChina

Company Law of 1994

For every corporatized SOE:

- 1) A board of directors must be formed.**
- 2) Shareholders meetings have to be held in order to elect directors and decide on major corporate decisions.**
- 3) A board of supervisors must be established in order to independently oversee and evaluate the behavior of directors and managers**