

PetroChina

PetroChina has made significant improvements in managing bribery and corruption risks, following high profile scandals in relation to its executives. This case study details how EOS has engaged with the company since 2014 on these bribery and corruption challenges and those which the company faces as a state-controlled oil and gas company.

Background

In August 2013, the Central Commission for Discipline Inspection, the Communist Party's top disciplinary body, publicly announced that four executives at CNPC and its publicly listed arm PetroChina were under investigation for serious violations of discipline. In June 2015, the former vice chair, who is also a senior official in the Chinese Communist Party, was charged with bribery and corruption crimes. He worked at the parent company CNPC for more than 30 years and was appointed vice chair of PetroChina in May 2014. He was sentenced to 15 years in jail in October 2015.

Our engagement

In July 2014, EOS at Federated Hermes met five senior executives in Beijing. We shared our engagement insights and presented external ranking resources to urge the company to benchmark its sustainability management practices, including anti-bribery and corruption management, with global peers. In October 2014, we met with senior executives from the legal and compliance teams, had a one-to-one meeting with the president of the company, and embarked on a two-day site visit, reiterating the messages we already relayed.

Following positive actions at the company, we sent a letter to the company's president in November 2014 to encourage ongoing improvement in sustainability management.

EOS has had 70+ interactions with PetroChina since July 2014.

Sustainable Development Goals



Engagement objective:
Social: Bribery and corruption

PetroChina is the largest oil and gas producer and distributor in China and one of the largest companies in this sector worldwide. It is a subsidiary of the China National Petroleum Corporation (CNPC), the state-owned petroleum and petrochemical group.

This further strengthened our engagement relationship and granted us the opportunity to present to the chair of the supervisory committee and senior executives in April 2015, two months before the former vice chair was charged with bribery and corruption. We offered to set up a meeting with a senior executive of one of the company's global peers who is familiar with the Extractive Industries Transparency Initiative (EITI) so that the company could get a better idea of the potential benefits of membership, which was accepted.

Between 2016 and 2018, we met with the assistant board secretary, head of sustainability and senior executives from compliance departments. We monitored: the improved disclosure and continued to put pressure on the company to benchmark against global and local best practices, including actions against tax avoidance that cover domestic and global businesses; transparency in supply chain management covering open bidding processes; and the disclosure of whistleblowing metrics.

In June 2019, the board secretariat invited us to provide feedback to the supervisory committee, outlining the sustainability management improvement that the company has made since we started our engagement. We confirmed with the board secretariat that no bribery and corruption scandals have been reported publicly since the bribery and corruption case that was concluded in 2017.

Engagement timeline

- 2014**
 - EOS voiced concerns over need to strengthen sustainability management, including anti-bribery and corruption compliance practices with five senior executives in Beijing.
 - Met president and embarked on two-day site visit, reiterating our concerns.
- 2015**
 - Presented concerns and recommended practices to chair of supervisory committee and over 20 senior executives on sustainability management, including anti-bribery and anti-corruption measures.
 - Company established four-pillar compliance management mechanism covering prevention, control, supervision and accountability.
- 2016 - 2018**
 - Regularly pressed for improvements to anti-bribery and corruption compliance practices based on mechanism established, and to make steady progress in appropriate disclosures.
- 2019**
 - Company confirmed that no further bribery and corruption scandals have been reported.



Hans-Christoph Hirt, head of EOS joins PetroChina for two-day site visit

Changes at the company

In October 2014, a senior executive from the legal and compliance department informed us that the company sent a delegation to a German conglomerate, Siemens, to learn from its experience in dealing with a major bribery scandal in the 2000s. In our dialogue, the company acknowledged that we were right to question why there continued to be allegations of bribery and corruption and senior level departures. In 2017, the company appointed the former chief financial officer of Royal Dutch Shell to enrich its understanding of global best practices.

Through multi-stakeholder group discussions, the company was able to benchmark against global best practices. It disclosed information on projects and tax payments in its 2015 sustainability report, published in March the following year. This was the first time that its activities as an EITI member were reported under the section "Tax payment according to law" and the information has since been included in its annual sustainability reporting.

The company issued integrity and compliance guidelines in 2015, ensuring these are communicated to staff and contractors in different languages. They cover codes of conduct, prohibited matters in internal and external relations and anti-bribery and corruption measures. It has set up a registration and reporting system for conflicts of interest and a compliance evaluation and filing system to record and evaluate employees' performance of due diligence compliance. It has also conducted compliance investigations into business partners and related transactions.

In the same year, the company established a four-pillar compliance management mechanism covering prevention, control, supervision and accountability. It developed its own: punishment regulations for management's violations and non-compliance; compliance management measures; and material supplier management measures, to regulate behaviors of employees and the company. Other key improvements are covered in its 2013-2017 work plans to establish and improve the systems for the punishment and prevention of the Bribery Act, the anti-corruption guidelines for overseas businesses and the views on the implementation of anti-corruption training of senior management.

In 2017, the company reiterated its resource extraction disclosure commitment through continued involvement in EITI, the Organisation for Economic Co-operation and Development and G20's Base Erosion and Profit Shifting initiative, in addition to increased disclosure of its tax policies.

In 2018, the company further improved its anti-bribery and corruption efforts by developing a joint surveillance information system across business areas and disclosed the number of complaints handled for the first time.

In general, the company has taken a zero-tolerance approach to bribery and corruption and is continuously advancing its corruption disciplinary mechanism to regulate the behavior of its employees.



EOS made a timely presentation to the chair of the supervisory board and shared its insights on global and local best practices in fighting bribery and corruption. This is aligned with our continuous efforts in sustainability management. We continue to value stakeholder engagement that helps us make improvements.

– Enlai Wu, Company Secretary, PetroChina

Next steps

Based on the company's disclosures, we believe an effective anti-bribery and corruption system has been put in place. We continue to engage with the company to improve other material ESG issues, primarily as co-lead of the collaborative engagement initiative, Climate Action 100+. Our engagement covers improved climate governance and emissions management and reduction, in particular with regard to methane emissions, and includes the setting and disclosure of appropriate group and individual targets.



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Federated Hermes

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