China looks to curb SOE losses through staff ownership

China's state assets watchdog is set to ban state-owned enterprise (SOE) employees, particularly management staff, from owning shares in SOE affiliates and subsidiaries, in a move seen as an attempt to stop state assets ending up in private hands.

The measure was a crackdown on speculation by SOE management on SOE reform, through irregularities in management buyouts, and would prevent losses of state assets, Zuo Daguang, director of the watchdog's Liaoning branch, told Xinhua on Thursday.

"Staff, particularly middle and senior management, are forbidden to invest in companies that provide the SOEs with fuel, raw and auxiliary materials, equipment and spare parts," said the State-owned Assets Supervision and Management Commission (SASAC).

The prohibition extended to companies that provided design, construction, maintenance, sales and intermediary services for SOEs.

Staff investment is also banned in companies involved in business similar to that of the SOEs, according to the proposals on regulating SOE employees' shareholding and investment, published by SASAC on Wednesday.

The SASAC also highlighted in the new rules that the SOE staff could in principle only hold equities of their own companies, not subsidiaries or other SOE-invested businesses.

The regulations did not apply to listed companies mainly held by the State.

In order to contain insider-control and state-owned assets losses, SASAC and the Ministry of Finance jointly issued a document in April 2005, forbidding management boyouts of large SOEs.

SOE management ownership of equities in affiliates, subsidiaries and SOE-invested companies has led to problems, such as executives procuring products or services of those businesses at prices unreasonably higher than the market price, resulting in "state-owned assets losses in disguise", said Zuo Daguang.

Public discontent with state assets losses and privatization has been in rumbling on since the SOE reforms were launched three decades ago.

Last March, the SASAC issued similar proposals specifically designed to regulate employee shareholdings in power generating SOEs. The proposals said such SOEs were to be the first to buy shares transferred by their staff.

But uncertainties over the enforcement of the regulations and the definition of senior and middle management could continue to puzzle state assets supervisors, said a SASAC research center expert who declined to be named.

According to the new document, SOE senior and middle management are required to transfer such shares or resign from the posts within a year of the publication of the new rules, but the new rules prescribe no penalties for failing to comply.

The proposals encouraged employees of small and medium-sized SOEs to own shares of the SOEs, a move that has been contemplated for more than a decade to help smaller firms out of debt and push them into competition.

But they stipulate that employee stakes in large SOEs should be minority shareholdings to maintain their nature of state ownership. Large SOEs, particularly the 147 giants reporting to the central government, include industries crucial to state security and national economy, including petroleum and petrochemical, power and telecommunications.

Source: Xinhua