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Fidelity's PetroChina stake sale shows campaign power

By Muralikumar Anantharaman

BOSTON (Reuters) - The slashing by Fidelity Investments of its PetroChina stake under pressure from human rights groups opposed to the Chinese company's ties to Sudan shows the vulnerability of money managers to public campaigns.

For more than a year, activists clamored for the world's biggest mutual fund company to divest from PetroChina Co. Ltd. (0857.HK: Quote, Profile, Research and Sinopec Corp. (0386.HK: Quote, Profile, Research because of their ties to the oil industry in Sudan, which the U.S. government has accused of complicity in genocide.

Last week, Boston-based Fidelity appeared to bow to that pressure, revealing in a Securities and Exchange Commission filing that its PetroChina American Depositary Receipts' holdings had fallen by 91 percent.

The news followed a relentless campaign by activists, including an online petition and appeals by celebrities such as actress Mia Farrow, who accused China's state-run energy firms of helping to fund violent campaigns in Sudan's Darfur region.

"It was a very effective campaign," said Paul Argenti, professor of corporate communication at the Tuck School of Business at Dartmouth College.

"It was a multi-pronged attack that was a great example of how NGOs (nongovernmental organizations) can very effectively force companies into acting more responsibly than they otherwise would."

Fidelity maintains the $585 million reduction of its PetroChina stake in the first quarter was not in response to the protests, but rather a view on the investment merits of the Chinese company by fund managers whose funds owned the stock.

Activists cautiously welcomed the news.

REPUTATION RISK

Argenti said Fidelity could have benefited from the controversy if it had handled the situation better.

"A simple reputational risk analysis would have shown you that this is an accident waiting to happen. And you eliminate it before you have to and then make a big deal about it," he said. "Instead, now this will be seen as they were forced to the table and they didn't even then embrace the position."

Louis Harvey, president of Boston market research firm Dalbar Inc., said the episode adds a new dimension to investing.

"Not only are Fidelity and others going to be faced with 'should I be going into Venezuela or wherever the next hot spot is,' but also they are going to be faced with the question of 'what do I do to keep my investors happy'," Harvey said.

While 13 U.S. states and 42 colleges and universities, including Harvard, Yale and the University of California, have already divested from Sudan, Fidelity's move is significant because of its leadership role in the $10.8 trillion mutual fund industry.

"Fidelity is the flagship of active management. If you can basically take the wind out of the flagship's sails, then the whole fleet has to stand still and reconsider what its course of action is going to be," said Jim Lowell, editor of independent newsletter Fidelity Investor.

But the fact other institutions, including Warren Buffett's Berkshire Hathaway Inc. (BRKa.N: Quote, Profile, Research(BRKb.N: Quote, Profile, Research, continue to be big owners of PetroChina, show the campaign is not a complete success, Lowell and Argenti say. Berkshire's investment in PetroChina is valued at about $3 billion.

Even Fidelity has not totally pulled out of PetroChina or Sinopec. Nor has it said it will not reinvest in them.

Through its ownership of Hong Kong listed shares of the two companies, Fidelity and its affiliate, Fidelity International Ltd., could still hold investments of more than $1 billion, said Eric Cohen, chairman of the "Fidelity Out of Sudan!" campaign.

"Given that's the case, it's not time to declare victory by the activists and it's not time to declare that Fidelity has seen the light and made themselves clean," Cohen added.