

Pirelli & C SpA

'Pirelli is in peril': Pressure rises over Chinese grip on Italian tyre maker

Rome assesses whether to limit state-owned ChemChina's voting rights or force it to sell down 37% stake

Silvia Sciorilli Borrelli in Milan, Amy Kazmin in Rome and Yuan Yang in London 5 HOURS AGO

Many in Italy were aghast when tyre tycoon Marco Tronchetti Provera sold Pirelli, one of the crown jewels of the country's manufacturing sector, to ChemChina in a \$7.7bn takeover in 2015.

Politicians and investors feared Pirelli's technology would be transferred to its new Chinese parent, now part of state-owned chemicals champion Sinochem. But Tronchetti Provera — once married into the Pirelli family — defended the sale, which allowed him to stay at the helm of the 150-year-old business known as the “Prada of tyres”.

Now he is suffering seller's [remorse](#) amid [mounting tensions](#) between the Milan-listed company's Italian and Chinese shareholders as Sinochem seeks greater sway over the constitution of Pirelli's board.

As the government of prime minister Giorgia Meloni reconsiders Pirelli's future under rules that allow it to scrutinise foreign investments in strategic assets, Tronchetti Provera plans to tell a hearing on Tuesday that “the Chinese are dangerous and the future of Pirelli is in peril”, according to people close to the discussions.

Rome is assessing whether Pirelli's technology has [national security implications](#), and whether to limit Sinochem's influence by curbing its voting rights or forcing it to reduce what is now a 37 per cent stake after its initial majority holding was reduced in a [2017 initial public offering](#).

While the original [Pirelli](#) sale was not subjected to any national security review, Italy has since expanded its so-called “golden power” rules, widening the ambit of what constitutes a strategic asset to include transportation, sensitive data and technology.



Marco Tronchetti Provera may be suffering seller's remorse © Alberto Bernasconi/FT

Relations have cooled between Tronchetti Provera and his Chinese partners since ChemChina's former boss, Ren Jianxing, who clinched the Pirelli deal, described the Italian businessman as his "teacher, older brother and friend".

[Sinochem](#) triggered the current review in March when it notified Rome of revisions to its shareholders' pact with Tronchetti Provera's investment vehicle Camfin, which owns 14 per cent of Pirelli, to consolidate its hold over the company the Italian has run since 1992.

Like other tyre makers, Pirelli is developing microchips to broadcast information about tyre usage, maintenance requirements and, potentially, geolocation data.

Experts and some Italian officials are sceptical that such technology will be enough for Rome to limit Sinochem's shareholder rights or force it to sell down its stake.

"Seen from afar, the sensitive technology argument doesn't seem strong enough to impose any major restrictions or veto," said Mario Calderini, an economist at the Politecnico di Milano.

But people close to talks between Pirelli, Sinochem and Rome say the Chinese Communist party's interference in the company's management is the bigger issue.

Documents provided to the hearing and seen by the Financial Times show the Chinese government has sought to take [more control](#) of business and governance decisions.

In an internal communication dated September 16 last year, an assistant to Sinochem's general manager told Pirelli executives to inform Beijing in advance about any meeting with foreign government and diplomatic officials — including retired ones and Italians. It also said any company event or visits involving Italian or foreign officials should be organised directly by Beijing.

In a later document dated November 3, Communist party representatives who sit within Sinochem told all the group's companies, including Pirelli's Chinese subsidiaries, to abide by guidelines aimed at “fully implementing Xi Jinping's three-year action plan to accelerate the modern Chinese business system within companies controlled by Sinochem”.

It said “the party's leadership must be exercised in every aspect of company governance, and the main management issues, as decided by the board of directors, must be examined and discussed” by the companies' internal party committee.

Sinochem did not immediately respond to a request for comment but people close to the group said the prescriptions only applied to Pirelli's operations in China. Pirelli declined to comment.



Sinochem's Beijing offices © Roman Pilipey/EPA

The Pentagon has also meanwhile designated ChemChina a “Chinese military company”, a civilian face of Beijing’s military modernisation drive, a status that Pirelli executives fear could threaten the company’s US market access.

Yet analysts say any move to curb Sinochem’s ownership rights could lead to a backlash in China.

“Undoing an existing deal, eight years later, is different to having a transparent review at the beginning,” said Peter Lu, partner and global head of law firm McDermott Will & Emery’s China practice. “It would create a big image issue for the Italian government once it came out in the Chinese media. Then there could be a popular reaction to move away from Italian labels.”

Relations between Rome and Beijing are already at a sensitive point as Meloni considers [withdrawing](#) from China’s Belt and Road Initiative, which Italy joined in 2019 despite fierce disapproval from the US and other European powers.

Adding to the mix the situation of Pirelli — where Tronchetti Provera has been squabbling with his Chinese partners over day-to-day management since [Ren’s abrupt 2018 retirement](#) — would further complicate matters.

China has changed and the spirit of the original agreement under which Beijing was never going to interfere was defied

“The government is in a difficult position,” said one Italian official familiar with the case. “We’re talking about a [listed] company and it would set a dangerous precedent.”

Sinochem told Italian officials it did not plan to take over Pirelli’s management and that the [revised](#) shareholder pact had left the Italian shareholder in control of important decisions, according to people close to the Chinese group and an Italian official.

Some investors, however, would like to curb China’s influence given the current geopolitical context.

“China has changed and the spirit of the original agreement under which Beijing was never going to interfere was defied,” said one person close to the company.

ChemChina bought into Pirelli in a season of [Sino-Italian liaisons](#) when Chinese companies snapped up stakes in big Italian groups as Italy reeled from the after-effects of its debt crisis.

But amid rising Sino-US tensions, Rome expanded its golden power rules, which define as a strategic asset anything deemed “vital to the wealth, health and safety of the population”, said Paolo Ghiglione, partner at law firm Allen & Overy in Milan. “It’s so broad it could mean anything and everything”

Former prime minister Mario Draghi, for example, used his authority under the law to veto the acquisition of an innovative Italy-based seed company, Verisem, by ChemChina-owned Syngenta. The decision was upheld by the Italian administrative court after Syngenta appealed.

[Germany](#) and the [UK](#) have also recently moved to block Chinese investments on national security grounds. Italy’s potential intervention eight years after the deal, however, would be the first of its kind in Europe.

Sinochem denied media reports this year that it was looking to sell its Pirelli stake.

In 2018 dealmaker Ren was abruptly ousted from ChemChina as Beijing manoeuvred to merge it with Sinochem. The company’s new English-speaking chair Frank Ning was widely admired by both foreign and domestic business people in China but retired last year and was replaced by petroleum engineer Li Fanrong.

“The big picture in China since Xi took power is ever more Communist party involvement in companies,” said Joerg Wuttke, former chair of the European Chamber of Commerce in Beijing. “I can imagine European partners not liking that.”

Within Pirelli, frictions have emerged over Tronchetti Provera’s pay, which in 2022 was €20.5mn — more than seven times that of the CEO of the world’s largest tyre manufacturer Michelin, according to three people briefed on the discussions.

Succession planning has been another sticking point.

At its upcoming July 31 shareholder meeting, Pirelli is expected to appoint Giorgio Bruno, Tronchetti Provera’s longtime deputy, as its new chief executive, as per the terms of the old shareholder pact that allowed the CEO the right to designate his own successor.

The new shareholder pact gives Sinochem the right to appoint nine board members, up from eight, while cutting Camfin’s board appointments from four to three. Bruno is among those appointed by the Chinese company, though designated by Tronchetti Provera.

Pirelli has warned Rome that Beijing could eventually appoint the company's CEO if Bruno were to leave. People close to Sinochem said any such move would require a new shareholder pact and a new review by Italy's government.

The Italian government declined to comment.

For all the facets of the issue, Calderini said Rome had to be cautious in handling the affairs of a listed company in which it has no direct interest.

"A Chinese government interference is not surprising but it transcends Rome's veto powers under the current rules, [so] if a tangible national strategic interest over Pirelli cannot be proven," the professor said "any intervention would be interference pure and simple."

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