

Reform of the energy pricing system crucial

December 25 (China Daily) -- Rapid economic growth has led to an increasing demand for energy. And as energy prices keep increasing more pressure is being put on supply and demand. The reform of the energy industry, especially its pricing mechanism, has drawn much attention.

The National Development and Reform Commission said recently it was necessary to reform the pricing mechanism of resource products to further improve efficiency. But the reform should be implemented at the right time with due consideration for all concerned.

Energy prices in China are mainly decided and controlled by the government and do not reflect the scarcity of resources and the impact of energy use on the environment. The prices are relatively low and the pricing mechanism is not in line with that of the international market. This has caused serious problems in energy utilization, economic development and environmental protection.

The pricing mechanism is not in line with production and consumption. This has led to the over-exploitation of resources. China's rapid economic growth is mainly built on an economic structure of high-energy consumption and low-efficiency. The waste in exploitation contrasts hugely with the shortage of resources.

At the same time, low energy prices have increased the competitiveness of China's high-energy-consuming, high-polluting and resource-based products, enlarged trade surpluses and exaggerated the pressure on the yuan's appreciation.

The government is now paying great attention to energy conservation and emission reduction. Without reform of the pricing mechanism, the efforts will only achieve half the results. Reform is a matter of urgency.

Reform will mean further price hikes, and as it takes hold, it will affect the producer price and consumer price indices. The pressure of increasing costs on producers will gradually be transferred to consumers. The process, however, will take time.

Though the rise of energy prices will increase pressure on middle and downstream products, its impact on inflation in the short term will depend on the supply and demand of consumer goods. Over-capacity will lessen pressure for price increases, judging by China's current industrial and energy consumption structure.

In the long run, a price lever is still the most effective way to conserve energy and reduce emissions. As long as energy prices are low, enterprises will lack the drive to improve efficiency and cut emissions. The only way to stop high-energy consuming enterprises from expanding is to increase energy costs. It is therefore necessary to reform the pricing mechanism, marketize energy products and let prices guide investment and economic restructuring.

The reform faces a series of tough issues.

First, the supporting measures of the reform are not completed. There is a lack of overall planning and design in the pricing structure of different energy products. For

example, coal prices are market-led now but not electricity. China 's crude oil prices are in line with the international market but reform of refined oil prices has not caught up.

Today discussions on reform of the energy pricing mechanism are mainly about bringing China 's energy prices in line with the international market. But merely stressing this while ignoring the characteristics of the country's energy resources is not a good idea.

If the scarcity of resources and environmental costs are properly considered, China 's energy prices may be even higher than the international level, which could attract more imports of energy resources.

Social fairness is also an issue that should be considered. The price hikes that will come with reform will produce different impacts on consumers of different income levels and social groups. Even prices that are in line with the international market will harm the interests of some consumers. Transparent subsidies for certain consumers will help solve the problem. This is also an important part of the reform.

The current way subsidies are granted to producers have led to unfair distribution and consumption, which does not improve efficiency or promote social fairness.

Compared with other reforms, reform of the energy pricing mechanism will take time because of its importance, complexity and sensitivity. Marketization offers a way.

Any further delay in reform will make us lose important opportunities and increase the cost of sustainable development. Without feasible alternatives, the inefficient use of energy resources driven by the low prices today will mean higher energy prices and a bigger cost to the environment tomorrow.

It is reported that mounting inflationary pressure could slow down our reform of the energy pricing mechanism, if we do not do it now, we will have to bear the costs later.

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