Energizing China's energy sector

The breath and depth of the impact of the ongoing global financial crisis far exceeds initial expectations. And for China's energy sectors, it brought challenges as well as opportunities for restructuring. However, it needs vision and a careful plan to turn realize the opportunities.

Crisis looming larger

Energy demand declined in 2008. China's electricity consumption fell 8.6 percent from a year earlier in November and 3.7 percent from the same month the year before in October - its first such decline since 1999.

As a result of worsened global credit crunch, a shortage of refined oil witnessed in the first half has turned into a surplus, with some regions having oversupplies.

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Coal consumption in China was expected to increase 4.5 percent to 2.74 billion tons last year, down 5 percentage points from the previous year's growth rate. Stockpiles reached a record high of 184 million tons at the beginning of December.

Prices of oil and coal dropped. Crude prices in New York Mercantile Exchange have fallen to $35.35 a barrel on December 24, 76 percent down from a record $147.27 a barrel on July 11. International coal prices kept declining since July, and coupled by weak domestic demand, the coal prices at Qinhuangdao port dropped more than 22 percent in November.

The business performance of energy companies worsened. China's five biggest power companies posted a loss of 26.8 billion yuan in the first ten months of 2008, as compared with 28.3 billion yuan in same period of the previous year. They will be facing difficulties in raising funds from the lackluster stock market as well as the banks, which are tightening lending rules.

Recently, domestic demand for refined oil dropped while stockpiles went up. China's major refiners began to lower production, but with the prices for petrochemicals dropping, their revenues have been seriously affected.

At China National Coal Group Corp, a typical representative of the whole coal industry, the profit of its core business dropped by 30 percent in October compared to the average monthly profit in the third quarter.

I. Domestic demand

As required by the central government, we should launch more major energy projects to drive up domestic demand and boost confidence.

First, we should speed up the approval of several major energy projects, whose investments will revive the upstream as well as the lower stream industries. Take the recently approved construction of the eastern section of second pipeline of the West-East Gas Transmission Project for example. Its direct investment is 93 billion yuan and it needs 4 million tons of steel. And more importantly, the project could draw investment totaling 300 billion yuan to the cities it passes through.

Second, we should immediately put the government's investment in the energy sector to use. The government allocated 4 billion yuan in the fourth quarter to improve the power grid in urban and rural areas and the money was put in use in 10 days.

In the coming years, China should allocate more investment to the following projects: nuclear power plants, wind farms and large-scale coal bases which could improve the energy mix and increase domestic demand effectively; cross-region transmission projects of coal, electricity, oil and gas and the construction of state reserves of oil and uranium, and the construction of power grid and pipelines.

II. Energy structure

China's power production and supply went down sharply recently and in some areas the energy shortage in the first half of last year turned into a surplus after the credit crunch slowed the Chinese economy, and we should take this as an opportunity to improve our energy mix.

First, China's power industry will continue building more big thermal power generators while closing down smaller ones.

Second, China should push forward the consolidation of coal resources by closing and regulating small coal mines and speeding up the construction of 13 large-scale coal bases approved by the government.

Third, China will invest greater efforts to build more nuclear power plants in the years to come. In 2009, the nation will start building four nuclear power plants in Haiyang, Rongcheng in eastern Shandong province, Sanmen in eastern Zhejiang province, and Yaogu in southern Guangdong province.

Fourth, the country will invest great efforts to boost its renewable energy sector and it will make favorable policies to speed up the development of its wind-power, hydro-power and solar-power industries. Domestic wind power generation capacity is expected to grow by 4 million kW to 10 million kW by the end of 2008. The country will try to raise its total generation capacity to 100 million kW by 2020. Large-sized wind farms are being planned for construction in Gansu, Hebei and Jiangsu provinces as well as Inner Mongolia autonomous region.

Fifth, the country will nurture more big-sized energy groups by encouraging the integration of companies in the fields of coal, electricity, chemicals, roads and ports construction. In this way, the country will have stronger control of energy resources.

III. Overseas energy

To ensure energy security, China supports companies using overseas energy resources and tapping the international market.

First, China should actively involve itself in the bilateral dialogues with the United States, Russia, Japan and the European Union and in the multilateral dialogues with APEC and ASEAN+3 countries to enhance energy cooperation.

Second, the current financial crisis, global recession and sluggish energy market offer a favorable opportunity for China to expand cooperation with energy-producing nations and neighboring countries. China will push forward the construction of China-Myanmar oil and gas pipelines while proceeding with the construction of China-Central Asia gas pipes and the second phase of China-Kazakh oil lines.

Third, the country should increase strategic reserves of energy resources. Having largely completed the country's first phase of state strategic oil reserves, China has completed planning of the second phase of oil storage facilities that could hold up to 26.8 million cubic meters of oil and the country will actively push forward its construction. Oil firms are encouraged to use spare storage capacity to increase commercial stockpiling of oil resources, and state and commercial reserves of other strategic resources should be set up.

The author is the Director of China's National Energy Administration. The article is an abstract of his remarks published in People's Daily on December 29, 2008.

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