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Energy reshuffle

As global energy prices continue to fly higher, China has moved a step further to unify its divided energy management regime by expanding the National Energy Bureau.

Under China's highest economic planner, the National Development and Reform Commission (NDRC), the newly elevated energy bureau will be quadrupled in manpower in an attempt to ensure the nation's energy supply.

Industry insiders say the reshuffle is just the first step toward setting up a unified national energy management regime. It will mainly focus on energy supply and production. In this high energy price era, matters such as energy conservation, oil reserves and energy price management are still not under the national energy bureau's governance.

The central government recently finalized the governance of the bureau after China's legislative body National People's Congress (NPC) gave an approval in March to gradually unify the scattered energy management functions in various cabinet departments.

The State Council, China's cabinet, has already approved increasing the bureau's manpower to about 120. It consists of nine departments in charge of energy policy, project planning and approval, electricity, coal, oil, nuclear power and alternative resources and international cooperation.

The legislative body has also agreed to set up a National Energy Committee, which is designed as a strategic consultation body independent from the NDRC. The executive office of the national committee is expected to be part of the national energy bureau.

Industry insiders say China has already made headway in setting up a unified energy management system amid challenges toward global energy security.

"This is a good start to ensure China will function well regarding energy security," says Zhang Libin, Beijing chief representative of the US law firm Baker Botts L.L.P, which specializes in energy business.

"It's a preparation for China to finally set up a cabinet department with overarching energy sectors," Zhang tells China Business Weekly. "It's of great importance to China's sustained development."

Independent body?

The national bureau is reportedly choosing a separate location for its offices despite that its chief Zhang Guobao also held the position as vice-minister of the NDRC. This has been reportedly seen as a sign of the bureau's increased independence from the NDRC.

The other two deputy directors of the national bureau are Zhao Xiaoping and Sun Qin, whose positions are at vice-minister level.

In addition to increasing oil and coal supplies, the national bureau has decided to tap the potentials of nuclear power and renewable energy. Zhang said recently that the country will accelerate the construction of nuclear power plants, particularly in the coastal regions, to ease mounting pressures on coal transportation from the northern regions and electricity transmission from west China.

The move, which could see nuclear power making up a minimum of 5 percent of the country's total energy mix in 2020, from the current level of less than 2 percent. That is higher than a previous target by 2020 of 4 percent set in 2005.

The bureau has also announced that the Inner Mongolia autonomous region, Gansu and Jiangsu provinces will be the site of the country's first wind power clusters, designed with a electrical capacity of 10 million kW each. This is compared

with about 18 million kW from the Three Gorges electrical power generators in the Yangtze River.

The national bureau's other mission will be developing renewable energy, which is targeted to account for 10 percent of China's energy mix by 2010 when the total energy consumption is projected to reach 3 billion tons of standard coal equivalent.

China will also tap hydropower, which is predicted to reach 190 million kw by 2010, up from 117 million kw in 2005. And wind farms are expected to generate 10 million kw by 2010, going up from 1.31 million kw in 2005.

Solar power and bio-fuels will also play a bigger role. Solar power is predicted to generate 300,000 kw by 2010, up from 70,000 kw in 2005. And by 2010, it is hoped bio-fuels will produce 55 million kw, up from 2 million kw in 2005.

China plans to make alternative energy account for 16 percent of the total energy consumption by 2020. Currently, renewable energy consists of 7.5 percent of China's power mix.

While insisting on exploring more resources, Premier Wen Jiabao has urged to implement strict measures to save energy and realize its targets of saving 20 percent of per unit GDP energy consumption during 2006-10 period.

The major responsibility for energy conservation has been taken by the NDRC's department of resource utilization and conservation. The commission said earlier that China has been implementing its energy saving measures to realize its ceiling target of energy consumption 3 billion tons of standard coal equivalent by 2010.

Last year, China has consumed 2.65 billion tons of standard coal equivalent, up 7.8 percent from 2006. And consumption growth slowed by 1.81 percent year-on-year.

Huge challenges

Energy consumption per unit of GDP was 1.1663 tons of standard coal equivalent, down 3.27 percent from 2006. The decline was 1.94 percent faster than the year before. In 2007, the country saved 89.77 million tons of standard coal equivalent in energy. According to China's 11th Five-Year Plan (2006-10), it aims to cut energy consumption per unit of GDP by 20 percent from 2005 before 2010 by improving resources, utilizing efficient technology, and saving energy.

"We are still faced with many challenges in meeting the ceiling target," Wen said at last week's national conference on energy saving. "Our development pace is too fast."

Lawyer Zhang Libin said it's urgent for China's legislative body to discuss and then approve the draft of the new Energy Law, which can work as legislative framework for the new energy agency.

A draft is finished, but the central government has still not decided when to read it, despite the fact that it took two years to complete.

"We haven't discussed it so far," Dong Chaojie, a deputy department director of the State Council's Legislative Affairs Office said earlier in an interview. In line with China's law-making process, Dong's office is entitled to decide when to submit the drafts to the National People's Congress to for consideration and voting.

She said it would be "complicated" for the drafters and legislators to weigh the diverse interests of stakeholders and parties governed by the energy law. The biggest challenge is the consolidation of separate responsibilities in various governmental departments.

Ye Rongsi, deputy head of drafting group under National Energy Leading Group, also said "it will take further time" to absorb public input to improve the draft.

"I think 2009 would be the earliest possible date for the legislative body to read and vote on the draft," Ye says.

China's energy agencies are struggling with small staffs and an unusual division of responsibilities that has made it to consolidate the authority.

"Given the background, significant institutional restructuring may be required in order to administer a cohesive national energy plan," says Zhang.