



The Auto Project on Energy and Climate Change  
汽车能源与气候变化—中国项目

# MONTHLY NEWS BRIEFING

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**iCET Beijing Office:**

Ms. Fang Fang  
Beijing Office General Manager  
Phone: 86-10-65857324 ext. 212  
e-mail: [fangfang@icet.org.cn](mailto:fangfang@icet.org.cn)  
Room 1904, e-Tower Building  
No.C12 Guanghua Rd.  
Chaoyang District 100020, Beijing

**iCET USA Office:**

Dr. Feng An  
President and Executive director  
Phone: 626-844-7439  
e-mail: [fengan@icet.org.cn](mailto:fengan@icet.org.cn)  
[www.icet.org.cn](http://www.icet.org.cn)  
[www.autoproject.org.cn](http://www.autoproject.org.cn)

## General Energy Issues

### China goes cold on biofuel, food supplies seen as priority

May 19 (Xinhua News Agency) -- While biofuel may be a key focus of a global drive for renewable energy, food concerns will keep China from pushing ahead aggressively in this sector, agriculture experts said. Once regarded as a panacea in the search for more secure and sustainable forms of oil, biofuel is now being blamed for the rapid rises in global agricultural prices, and a number of countries - including China - are now rethinking development plans. Li Changping, a professor at Hebei University's Rural Construction Research Center, said that the only reason the price of food is rising alongside the price of oil is because of the growth in biofuel, which is also leading investors to bet on the food futures markets. "In the next few years, the US will continue to lead the development of bio-energy, and China absolutely must not follow because China's land can only provide for people, not cars," he said.

Some in the industry have said that the problem has been overstated, and that the push for biofuel is linked to only a small fraction of recent food price hikes. They insist that the real causes are the soaring cost of crude oil, the weak dollar and growing food demand from developing countries like China and India. But the United Nations Food and Agricultural Organization (FAO) estimated in a report published at the end of last month that cereal demand in China will rise by only 1.8 pct from 2007 to 2008. In the US, consumption is predicted to climb 11.81 pct, largely driven by corn-based biofuel production. The US administration has been keen to downplay the country's own impact on soaring global food prices, but the FAO report said that the US share of world cereal consumption is estimated to rise to 14.74 pct in 2007-8, from 13.46 pct in 2006-7. China's share is bigger, at 18.48 pct, but it has fallen from 18.53 pct since 2006-7, the report said.

The US used as much as 30 mln tons of corn to produce biofuel last year, the FAO said. China, preoccupied with the security of its food supplies and worried by the steep rise in prices

on the international market, has already imposed price controls and export restrictions on its agricultural sector. As early as 2006, it banned the use of corn and edible oil in the production of alternative fuels. Last year, it also suspended the issuing of new licenses for bio-ethanol production, and cut off subsidies to some existing producers. Li of Hebei University has called on the government to take further action. He said that the Chinese government should work together with international non-government organizations to oppose the "sacrifice" of crops for energy and "protect human food rights" through the introduction of "punitive measures" against biofuel producers.

Although there have been signs that small farmholders would prefer to switch to more lucrative biofuel crops, Chinese authorities, careful not to jeopardize food supplies, have sought to rein them in, and with good reason.

"If you compare the average amount of food per capita in China with the rest of the world, it is about half," said Liu Xingxu, the chief executive officer of Singapore-listed China XLX Fertilizer. "China has 1.3 bln people, 20 pct of the world total, but only 7 pct of the world's land. That's why the government had to ban food crops for biofuel use," he said.

China is already battling against the odds to make sure that it is self-sufficient in food, said Li of Hebei University. Rapid rates of urbanization and population growth, increasing standards of living as well as perilous water shortages in the north and northwest are making it more and more difficult to guarantee food supplies.

The push for biofuel is likely to put even more pressure on scarce agricultural land. There are other concerns. The China Meteorological Administration said last year that the country's food supplies were likely to dwindle by between 15-30 pct by 2030 if worst-case climate change scenarios actually materialize over the next few years.

The biofuel craze in the US, Brazil and Europe is expected to continue pushing food prices up for the next 10 years, according to a report released jointly last year by the Organization of Economic Cooperation and Development (OECD) and the FAO. Yvo de Boer, the head of the secretariat of the United Nations

Framework Convention on Climate Change, speaking to journalists in Beijing last month, also expressed concern about the way biofuel production was driving up food prices and exacerbating shortages. The recent spate of food riots - stretching from Haiti to Mauritania - is one of the more dangerous repercussions of the new clean fuel movement, he said.

"In a number of countries around the world, including Egypt, Haiti, Bangladesh, Mauritania and Peru, people have been rioting because of food shortages which can at least be blamed partly on the impact of climate change but on the other hand on the efforts to address climate change, like the production of biofuels, which is displacing food crops," he said.

According to Michael Zhao, chief financial officer of the New York-listed Chinese biodiesel firm, China Clean Energy, prices of edible oil feedstocks supplied to US and European biofuel producers went up by 100-200 pct last year. With crude oil prices at a record level, the producers could accept even bigger price rises and remain profitable, but China is far from pleased by the trend. Despite export caps and the food crop ban, the Chinese government has been unable to shield its farmers entirely from rising international prices. Liu of XLX Fertilizer said that controls are needed on domestic ethanol projects but this may not do much to slow the steady rise in food prices.

"All ethanol-producing enterprises must be strictly controlled by the government," he said. "But on the international market there is very strong demand, and that is pushing up (domestic) prices. The trend on the international market will certainly lead to price fluctuations on the domestic market."

The US Agriculture Department has predicted that China will become a net corn importer within four or five years. It is already the world's biggest soybean importer, making it even more vulnerable to biofuel-driven price increases. At the moment, it seems unlikely that China's ambitious biofuel targets will be met. By 2020, 15 pct of total gasoline and diesel demand should be met by biofuel, the government has said, but a number of large-scale projects have failed to get off the ground because of concerns about food security.

Experts said that if China is serious about meeting the target, it will have to begin importing biofuel. China produces only small amounts of ethanol and biodiesel, including output from a number of state-owned firms that have corn-based projects introduced before the ban on food crops was put in place. Pilot ethanol fuel projects in central China's Henan and also in the northeastern provinces of Jilin and Heilongjiang compel gas stations to mix gasoline and diesel with ethanol processed from rotting crops.

There are also a small number of companies producing relatively small volumes of biodiesel from leftover cooking oil collected from restaurants, and from agricultural waste. In 2004, the government also approved the use of more than 550,000 hectares to plant sweet sorghum for the production of biofuel. There are also about 1.5 mln hectares of land being used to produce fuel ethanol from sugar cane.

Kou Jianping, an energy specialist at the Ministry of Agriculture, said at a conference earlier this year that China would concentrate on sweet sorghum, cassava, sugar cane, sweet potato and sugar beet for the production of fuel ethanol. He said that sweet sorghum had already been used to produce fuel ethanol in Heilongjiang, Inner Mongolia, Shandong, Xinjiang and Tianjin. COFCO, a big state-owned food and edible oils group, is planning to invest 10-12 bln yuan on a number of large-scale biofuel production bases in southwest China, using sorghum, cassava and oilseed crops, and it is also considering the use of jatropha, an inedible but hardy and energy-rich weed identified by some as one of the more promising options.

But according to "Powering China's Development," a report released by the environmental research organization Worldwatch Institute at the end of last year, China's potential remains limited.

The alternative for China, said the report, is the use of "second-generation" cellulosic ethanol, which can be processed from agricultural and forest waste. China produces as much as half a billion tons of such waste every year, and it could become a major ethanol producer by around 2020 if - as experts predict - cellulosic ethanol becomes commercially viable within the next decade. Kou of the Ministry of Agriculture

said that China is "researching" the use of cellulose. On top of all these issues, experts have even cast doubt over the ultimate environmental benefits of biofuel. According to a paper published by the Atmospheric Chemistry and Physics journal last year, the excessive use of nitrogen fertilizer during the biofuel production process has been increasing the levels of nitrous oxide in the atmosphere. NOX is a far more potent greenhouse gas than carbon dioxide, and the increase easily offsets any putative cut in CO2 emissions.

The report said that only cane sugar, the main biofuel source in Brazil and traditionally less profligate with fertilizer, could be regarded as a viable way of replacing conventional fuel. Biofuels have also been blamed for deforestation in Indonesia and Malaysia, where farmers are seeking to exploit the lucrative palm oil market. Li of Hebei University said that the biofuel movement isn't all bad for China, and it is possible that it could help improve efficiencies in the agricultural sector by promoting the use of high technologies in the countryside and give farmers a guaranteed market. But he said to guarantee food security, the country must refrain from the sort of no-holds-barred commercialization of the sector that has taken place elsewhere.

"We shouldn't count on the price of oil falling below 100 usd a barrel and even if this happens, it will be short-lived. 120 usd a barrel or even more will be a normal state of affairs because this is of benefit to the development of biofuel producers," he said. "The country which has the most advantages, and which benefits the most from biofuel development, is the producer of the dollar, the US. The cost of food security in China is giving up competing in the bio-energy sector."

### **WB to lend \$441m for energy efficiency in China**

May 28 (Xinhua) --The World Bank (WB) has approved loans of 441 million U.S. dollars to improve energy efficiency and reduce emissions from power plants in China, the China office of the WB said on Wednesday.

The loans, which account for almost one third of planned loans for China in fiscal 2008, would go to three projects, according to the lender.

The energy efficiency project, co-financed by the WB and the Global Environment Facility (GEF), would get a loan of 200 million U.S. dollars.

The project, which would also receive a grant of 13.5 million U.S. dollars from the GEF, aims to boost large-scale loans for energy efficiency programs in China.

It would enable China's commercial banks participating in the project, such as the Export-Import Bank of China and Huaxia Bank, to offer loans ranging from 5 million to 10 million U. S. dollars for energy conservation projects, especially in heavy industries, the bank said.

A fuel gas desulfurization project in Shandong Province would be supported by a 50-million-U.S.-dollar loan, it said.

The desulfurization project would see the installation of gas desulfurization and sulphur dioxide control facilities in four coal-fired power plants in Shandong, one of China's top provincial coal consumers.

The project would also help local regulatory authorities to monitor and enforce their sulphur dioxide emission control targets.

The remaining 191-million-U.S.-dollar loan would be made to finance an infrastructure project in northeastern China's Liaoning Province to build more efficient central heating systems and reclaim waste heat from power generation and steel production.

"Improving energy efficiency is a priority area for the WB's work in China," said David Dollar, the country director for China.

The bank would focus on energy efficiency, renewable and clean energy, urban heating and power supply efficiency to help China better meet its energy needs and reduce greenhouse emissions for more sustainable growth, he added.

The WB has helped finance seven projects in the areas of clean energy and energy efficiency in China since 1998, covering small-scale hydropower, wind power, biomass and energy

efficiency in the manufacturing and building sectors.

As the world's second-largest energy user, China has set a target of a 20-percent reduction in energy intensity from 2006 to 2010 to improve its energy efficiency. But its energy intensity fell just 1.23 percent in 2006 and 3.27 percent last year, well below the annualized target.

### **China, US, Spain to drive wind energy growth**

May 27 (China Daily) --Global wind energy companies expect future growth in the industry to be mainly driven by the United States, China and Spain, said a German research study published on Monday.

"Those polled in the study believed that the United States, China and Spain should retain their high growth potential in future but that countries such as Greece and South Korea are also gaining in importance," said the study which had been carried out by wind energy institute DEWI.

Highlights of the study were published by organizers of the Husum WindEnergy 2008 trade fair which takes place September 9-13.

Global annual new installations are expected to grow fivefold in the next 10 years to reach 107,000 megawatt (MW) in the year 2017, according to the study.

In 2007, all global installations rose by 27 percent to 94,593 MW, with 78 percent of new installations made in the United States, China, Spain, Germany and India, the study said.

Germany was replaced by the United States as the world's No.1 market for newly installed wind turbines which its wind energy federation BWE said last month was because of falling subsidies.

In terms of new capacity additions, it ranked behind the US, Spain, China and India last year, BWE said.

But due to its head start and earlier growth, Germany is still the world's largest wind power market overall.

Its producers and suppliers account for more than a third of the industry's global turnover.

The study also said that by end-2017, total global installed wind energy capacity may reach about 718,000 MW compared with the 94,593 MW recorded at the end of last year.

As the focus of production shifts geographically, more than half of the installed wind turbine capacity in 2012 will already be located outside of Europe compared with a rate of 39 percent outside Europe last year, it said.

### **China, Japan to strengthen coop in energy, environment**

May 8 (Xinhua)- China and Japan agreed on Wednesday to strengthen cooperation in the fields of energy and environment protection.

Both sides, which are deeply concerned about the soaring world oil prices, agree to continue ministerial-level dialogue on energy policy and explore mutually beneficial cooperation in the field, according to a joint press communique.

China and Japan agreed to continue research on carbon dioxide capture and storage (CCS) technique to enhance oil recovery, and welcome diagnosis on the energy efficiency and environment friendliness of the iron, steel and concrete industries.

They also agree to strengthen cooperation in electricity-generating nuclear energy, and to exchange information and technology in developing biofuel under the principles of not jeopardizing food supply and arable land.

Both sides agree that it is necessary for the world's major energy consumers, including both China and Japan, to exchange views on policies and measures on energy conservation and share information.

The two countries welcome a memorandum reached between environment protection authorities of the two countries on waste water treatment projects in small towns and villages, the communique says.

The two countries highly evaluate the progress made in a joint research on sand storms and express readiness to further promote the exchange and cooperation among Asian countries on atmospheric environment research.

The two countries hail the forestry cooperation between the two governments and the solid work by non-governmental forestation groups of the two countries. They pledge to plant more trees, fight illegal felling of trees and contribute to the restoration and sustainable management of the forests in Asia.

Last December, Chinese and Japanese senior officials held talks in Beijing on macro economic policies, climate change, energy efficiency as well as trade and quarantine. The next round of dialogue on economy is scheduled in Tokyo this autumn.

### **US firm eyes huge market in China's energy saving drive**

May 19 (Xinhua) -- China could see the rise of a market that worth tens of billions dollars by just changing the way of managing its office buildings, according to executives from a leading US environmental technology company.

Chairman and CEO Stephen Roell of Johnson Controls Inc told Xinhua in a recent interview that the American company has seen a huge potential of business growth in China, which is now the world's second largest market of building management and air conditioning.

It will become the top one in the next few years, he said.

As early as in late April, Johnson Controls tried to introduce the idea of enhancing cost competitiveness through higher energy efficiency to Chinese companies. It found that many Chinese companies are now facing similar challenges as their US counterparts were.

Surging oil and commodity prices, revised laws on labor and environment and growing public opinion on corporate responsibility have forced Chinese companies to rethink their way of growth.

Roell said Chinese companies had fortunately started with an advantage of low cost. However, as companies in many other countries are regarding higher energy efficiency as an effective way to maintain profit levels and lower cost, Chinese companies will inevitably make the same choice in the long run.

As China's investors now focus on projects of higher growth, international capital market are channeling fund to projects of lower cost. Therefore, China is at the threshold of shifting to a more efficient and environmental friendly pattern of growth.

In the past few years, Johnson Controls has taken part in pioneering projects on building energy efficiency in China. It is a supplier of green building solutions for the 2008 Beijing Olympic Games. Its environment-friendly refrigerant solutions have been used in the Beijing Olympic Tower and 11 other venues and facilities across China.

"A lot of money can be saved by just changing the way how your office building is operated," said David Myers, vice president and president of building efficiency operations of Johnson Controls.

Considering the relatively higher energy cost, the size of the China market and the future growth of the China economy, the savings can be made through improving energy efficiency will be huge, said Myers.

"I think the potential of the China market is limitless," Roell said. Noting that China will not stop investment in economic growth for the pressure of the environment, he added his company will focus on helping these investment become more efficient.

Johnson Controls, a Milwaukee-based company specialized in energy efficiency for buildings, automobiles, trains and sea vessels, co-sponsored the China Energy Efficiency and Sustainability Forum in Beijing in April.

The two-day forum, under the auspice of the Clean Development Mechanism Fund under the Chinese Ministry of Finance, attracted hundreds of government officials, entrepreneurs and experts and scholars..

### **China, Russia pledge to maintain global energy security**

May 23 (Xinhua News Agency) -- China and Russia on Friday vowed joint efforts to maintain global energy security.

The pledge was made in a Sino-Russian joint

statement on major international issues, signed by Chinese President Hu Jintao and Russia's new president Dmitry Medvedev on Friday.

Both sides called on countries around the world to enhance energy dialogues and coordination, based on equality and mutual benefits, so as to stabilize international energy markets.

The two countries support building a mutually beneficial and cooperative new energy security concept featuring diversified development and coordinated guarantees, the statement said. They also called for speeding up research and popularization of new technologies for environmental protection.

Concerning global climate change, the two countries reiterated their determination to fulfill obligations under the UN Framework Convention on Climate Change and Kyoto Protocol, the statement said.

They vowed to conduct dialogues and cooperation to address the climate change issue, based on relevant conventions and the principle of "common but differentiated responsibilities," it said.

Both countries hold that developed countries should provide financial and technological support for developing countries, so as to improve developing countries' capabilities to deal with climate change, according to the statement.

With regard to sustainable development, the two sides consider it an important field for international cooperation. They called on countries to enhance the exchange of experience, maintain natural resources and biological diversity in a bid to build an environment-friendly and energy-saving society.

### **Incentives could clean up energy use**

May 30 (China Daily)-- China needs regulations to encourage energy saving and promote clean energies to reach its goal of a sustainable economy, said Shi Zhengrong, chairman of a flagship solar company, at the sidelines of the Asia Society's corporate conference in Tianjin.

"In the next five years we can reduce the price of solar electricity to the current level of electricity

produced by coal-fired plants," said Shi, chairman of Suntech Power Holdings, one of China's largest photovoltaic cell and module manufacturers.

"But its mass application will be difficult if China does not release regulations and establish appropriate mechanisms that support energy saving and the use of clean power."

The Chinese economy has registered growth of over 10 percent every year over the past decade, making China the world's second-largest power consumer in the world.

Nearly 70 percent of the nation's power is generated from coal, a notorious polluter.

Shi said the Chinese government should give more incentives or subsidies to clean power, which is currently more expensive than traditional energy.

"By 2050, about 30 percent of the autos could be fueled by solar power and the number will surge to 75 percent by the end of the century," he said. "This is the future."

China's clean technology companies grew in favor after Suntech was listed on the New York Stock Exchange in 2005. Its share sale raised nearly \$400 million and made Shi one of the 10-richest men in China that year.

Like many of other alternative energy companies, Suntech has been striving to increase the efficiency of its products and lower its power price to levels acceptable to consumers, which currently needs subsidies from the government.

According to experts, the recent surge in world prices for coal and oil resulted in increasing numbers of consumers turning to alternative energies.

But such phenomenon did not happen in China because energy prices are strictly controlled by the government, which fears that increasing power prices would place enormous pressure on the country's already-soaring consumer price index.

In May, Suntech announced the purchase of a stake in Shunda Holdings Co, a closely held Chinese maker of silicon wafers used in power panels, for \$98.9 million.

## Automobile and Transportation

### Looser policy on auto joint venture expected

May 23 (China daily) -- China's policy on automotive joint ventures is expected to be loosened and the ceiling for foreign capital investing in joint ventures raised, the Economic Observer quoted an insider as saying.

"The shareholding structure for Sino-foreign automakers will likely be not that strictly restricted in the future as economic reform deepens," said Zhang Xiaoyu, executive vice chairman of the China Machinery Industry Federation, at a recent industry forum.

Currently, foreign automakers are not allowed to own more than 50 percent in their Chinese joint ventures. But some signs suggest the policy might be loosened.

### Loosened policy

"More and more larger auto groups in China finance in the overseas capital market, so strictly speaking, the Chinese side also has overseas capital," said Zhang. "You can't say the Chinese side is purely domestic or State-owned assets."

According to China's automobile industry policy in 1994, in a Sino-foreign joint equity or cooperative venture producing whole automobiles, motorcycles or engines, the share of the Chinese side cannot be lower than 50 percent.

But in 2007, a supplemental provision on Sino-foreign motorcycle or engine companies was released, and under the provision shareholding proportions are not restricted.

"In addition to auto joint ventures, the whole auto industry is opening up," said Luo Zhongwei, an industry economics researcher with the Chinese Academy of Social Science.

Luo said that auto financing, one sector under stringent control, is opening up. At present, foreign companies can not only open auto financing companies in China, but also operate expanded businesses according under new management measures issued in January this year.

### Vehicle sales slow down in April

May 13 (Agencies) -- China's vehicle sales rose 14 percent in April, the slowest pace in almost two years, as a combination of inflation and a slumping stock market curbed demand for passenger cars.

Sales of passenger cars and commercial vehicles rose to 922,600 in April, the China Association of Automobile Manufacturers said in a statement yesterday. Vehicle sales grew at a rate of 21 percent in the first three months of the year.

The inflation rate is running near an 11-year high forcing people to pay more for food and other daily necessities. The nation's falling stock market also played a part in curbing demand for luxuries including automobiles.

"There're fundamental changes in people's buying sentiment," said Yale Zhang, director of CSM Asia in Shanghai. "People are really concerned about economic uncertainty."

Consumer prices rose 8.5 percent in April from a year earlier, the National Bureau of Statistics said yesterday, after gaining 8.3 percent in March. Earlier this month, central bank Governor Zhou Xiaochuan said there's a possibility that interest rates will rise. The benchmark one-year lending rate is at a nine-year high of 7.47 percent after six increases last year.

Vehicle production rose 20 percent to 981,300 units last month. In the first four months, production rose 16 percent to 3.5 million vehicles, while sales increased 19 percent to 3.5 million vehicles.

Passenger car sales rose 11 percent last month, also the slowest pace since July 2006. Sales of commercial vehicles including buses and trucks rose 21 percent to 317,700 units in April.

Car sales rose 22 percent last year, helped by the nation's benchmark stock index, the CSI 300, more than doubling. At least three-fifths of Chinese stock market investors use their profits to buy new cars, the automakers' group said last year.

General Motors, Toyota and other overseas carmakers are banking on China and other emerging markets to offset slower demand in the US, the world's largest auto market.

GM, the biggest overseas automaker in China, expects to boost annual sales in the country by about half over the next three years to 500,000 vehicles, it said last month.

Toyota, the world's second largest automaker, aims to raise China sales 36 percent to 640,000 vehicles in the year ending March 2009, it said last week.

Overall vehicle sales rose 7.8 percent in July 2006, while passenger car sales increased 5.4 percent.

### **China III emission standards lame**

May 9 (China daily)-- The China III emission standards will soon come into force nationwide as of July 1 this year in line with the Ministry of Environment Protection's agenda. Meanwhile, sales and registrations of those vehicles only meeting the China II standards will be suspended.

However, the goal still appears to require time before full implementation as government organs, automakers, engine manufacturers, and fuel suppliers strive to reach the same ground.

### **Unbalanced development**

Earlier last month, the director of Xi'an vehicle emission supervising center Mu Qiwang said enforcement of the China III emission standards in Xi'an, capital of Northwest China's Shaanxi Province, is likely to be postponed to October this year, he revealed in an interview with local media.

The report also said local dealers had received respective auto manufacturers' notices that some light trucks, pickup trucks and business cars which meet the China II emissions standard could be sold until September in 2008.

"This is a complicated issue which is related to many other problems. Supply of fuels meeting the China III standards, for example, is beyond local administrations' ability and needs to be handled by the National Development and Reform Commission (NDRC)," Mu told the 21st Century Business Herald. And he repeated that Xi'an was planning to exert the China III emissions standard from this October.

Sources from Shaanxi Environment Protection Administration's technological standard office confirmed that the whole Shaanxi Province has the same agenda with Xi'an. It plans an overall inspection towards supplied fuels in the province in September and then shift to all vehicles on sale in the province in October.

Even Xi'an, which is more or less outpacing most other western Chinese cities in controlling automobile emissions, is still in trouble to come up with the national agenda, not to mention provinces like Gansu and Qinghai.

Still some cities are stepping ahead. Chengdu, the capital of Sichuan Province, has implemented the China III emission standards since May, and Guangzhou also plans in July this year. Beijing has already executed the China IV emission standards early in March this year. Shanghai also mulls to take on the China IV standards by the end of 2009.

### **Auto imports soar in 1st quarter**

May 8 (China Daily) -- China imported 103,200 vehicles in the first quarter this year, up 74.54 percent year on year, according to statistics from the China Association of Automobile Manufacturers (CAAM).

Specifically, imports of luxury auto brands like Lexus, Mercedes-Benz, BMW, Volkswagen, Volvo and the latecomer Infiniti, grew a sharp 82 percent in the first quarter.

Statistics indicate a total of 28,534 off-road vehicles with 3.0-liter engines or above, with an average unit price of \$40,900, were imported in the first quarter, soaring 262.57 percent compared with same period in the previous year.

Meanwhile, the country also imported 16,624 cars with 3.0-liter engines or above during the period, up 75.28 percent year on year. The average unit price reached a higher \$57,900.

By contrast, China exported 179,000 vehicles in the first quarter, fewer than 199,000 units in the fourth quarter of 2007, signaling a slowdown in auto export.

The main reason behind the soaring imports is that auto importers gathered up on importing vehicles before a system of national inspection

of vehicle identification number (VIN) codes for automobile imports was carried out as of April 1 this year, said Xu Di, director of marketing department at China Automobile Trading Co Ltd.

"Buying imported vehicles as a second option is a growing trend among affluent people," Xu said.

Xu predicted growth of auto imports would decelerate in the second quarter as tight monetary policy and drop of China's stock market wealth.

A Guangzhou-based Audi dealership witnessed a 230 percent year-on-year sales growth in the first quarter. Huang Weiwen, marketing director of the distributor, pointed out the luxury car market is slightly affected by economic depression and high-end consumers' consumption temptation is also not very seriously impacted by the gloomy stock and property markets.

For export, experts attributed the quarter-on-quarter decline to the yuan appreciation that has resulted in higher export costs and lower price competitiveness for made-in-China vehicles.

Statistics indicate China exported 38,777 cars with displacements between 1 and 1.5 liters in the first quarter, accounting for nearly 40 percent of total vehicle exports. Exports of cars between 1.5 and 2.5 liters reached 21,630 units during the period, up 64.54 percent year on year.

Enjoying higher prices on small-displacement vehicles in overseas markets, domestic automakers like Chery, Geely and Brilliance Auto have set ambitious targets for tapping overseas markets.

### **Seven new energy vehicles set to roll out**

May 4 (China Daily) -- Seven new energy vehicle models are likely headed for mass production in the next one or two months, according to the latest list of auto manufacturers and models approved by the National Development and Reform Commission for production.

The seven models include Shanghai Volkswagen's fuel cell Passat, Shanghai General Motors' SGM7240, FAW's CA7130, and other four hybrid buses produced by Dongfeng

Motor Corp, Beiqi Foton Motor, and Changan Auto. The fuel cell Passat is already set to be the official car for the Beijing Olympics opening ceremony, and the SGM7240 may be the hybrid Lacrosse.

FAW Toyota's Prius and Dongfeng Honda's Civic Hybrid are representatives of the current hybrid car market. Since the Prius was released in 2005, only 2,400 units have been sold until now, in contrast to FAW Toyota's 280,000 vehicles sold last year alone in China. The same thing happened to the Civic Hybrid as it is rolled to market at the end of last year.

Both the Prius and the Civic Hybrid consume only 4.7 liters fuel per hundred kilometers, compared with a conventional 1.8-liter Civic, which consumes at least 5.8 liters fuel per hundred kilometers. But most customers are held back by high prices. The Prius' standard version is now sold at 259,800 yuan (\$37,220) in Guangzhou and the Civic Hybrid is about the same.

Nonetheless, as environmental friendly development is high on the country's agenda, more and more new energy vehicles will do more than show off at exhibitions.

### **Coming clean**

May 5 (China Daily) -- Rising fuel prices and the energy crisis don't appear to have stemmed Chinese consumers' desire for mobility. However, international and domestic automakers alike are driving to further develop vehicles with more energy efficiency and lower exhaust emissions.

A clear response to that was the week-long Beijing auto show at the end of last month. No longer an area to solely highlight luxury sedans and gas guzzling SUVs, it's also become an arena for more environmentally friendly vehicles. Whatever colors are preferred, it also might signal the dawn of "green" autos in China.

The fleet of energy friendly cars among the 890 vehicles at the auto show was relatively small, but auto industry analyst Sun Qi of Sinotrusted calls it "a sound response to the energy crisis, the call for an environmentally friendly world and the government's encouraging policies".

Along with a green themed fashion show presented by two designers from Berlin,

Volkswagen China also exhibited its eco-friendly fleet. "High power and low fuel consumption performance is our development target," says Winfried Vahland, president and CEO of Volkswagen Group China.

The German automaker's exhibits hyped its turbo supercharged injection engine and direct shift gearbox transmission - two technologies to help Volkswagen accomplish its target of reducing fuel consumption and emissions of all its cars produced in China by 20 percent by 2010.

"We want to provide the public with fuel-efficient cars at an affordable price, not using high-cost technology like hybrid or hydrogen-power, although we had the capability to produce hybrid cars years ago," says Vahland. "We are making progress with the existing technologies."

However, hybrid technology seems to be the favorite of most automakers who want to show off their green sides.

Twelve new hybrid models made their China premiere, from global and domestic producers.

GM promises to launch a hybrid product every three months globally in the future.

It will start selling a gas-electric hybrid - possibly a Buick LaCrosse, a full-size sedan, after research found target buyers wanted a car that size - in China this July.

It will be the first manufactured hybrid in China and the second in the market following Toyota's Prius.

Toyota, which first introduced its Prius hybrid three years ago, displayed three new models based on its hybrid technologies, although it sold only around 400 Prius models last year in China. Honda has sold only 150 of its Civic hybrids since last November.

"Green cars must become cheaper to be competitive in the marketplace," says Rick Wagoner, chief executive of GM. "The ultimate challenge is whether the automobile industry can get the cost down on hybrids enough to get them to pay off for the average guy."

Chinese automakers are also making their efforts on the high-efficiency, energy-saving vehicles.

Chery Automobile Co in Anhui province is out to cash in on the green car trend.

During the show, Chery exhibited a fleet of its eco-happy vehicles, including a diesel powered auto, a hybrid A5, fuel cell powered car which achieves zero exhaust, and a mix fueled A5 sedan which can be powered with a mixture from ethanol, gasoline and compressed natural gas.

Chang'an Auto Corp, China's fourth largest automaker, is the first to domestic car manufacturer to mass-produce hybrid cars. The country's first hybrid sedan Jiexun-HEV rolled off the production line at Chang'an plant in Chongqing last December.

The Jiexun-HEV can save energy consumption by over 20 percent, with a peak speed of 160 km per hour.

Chang'an Auto also displayed the first hydrogen-powered roadster at the show.

BYD Auto, a cellphone battery company that entered the auto business in 2005 is planning on using its experience in mobile phone battery development to construct dual-mode, gasoline-electric hybrid plug-in vehicles.

This fall, BYD plans to sell their F6DM gasoline-electric hybrid in China, followed by the smaller F3DM hatchback hybrid.

The automaker revealed its electric model E6 at the Beijing auto show. The model can run over 300 km once charged - the longest distance an electric vehicle can run in the world without being recharged.

### **Special Supplement: VW's Lavida brings Chinese design to life**

May 28 (China Daily) -- It's not only a long-awaited new product from Shanghai Volkswagen Co Ltd, but more significantly, it's the first Volkswagen-branded vehicle designed by Chinese, made in China and tailored for China's market.

The Lavida sedan, which means life and hope in Spanish, also realizes the joint venture's hope to further strengthen its foothold in China's fiercely competitive auto market.

"The global premiere of Lavida in Beijing shows our commitment to Chinese consumers," said Frank Brustmann, vice-president and executive director of Volkswagen Brand, SAIC-Volkswagen Sales Co Ltd.

The 50-50 venture between German auto conglomerate Volkswagen and Shanghai Automotive Industry Corp sold 436,300 passenger vehicles last year, taking third place in the segment.

Its Santana model ranks first in sales volume, remaining the champion title it has held for years.

Yet the sedan's aging design means it is no longer unassailable as Chinese consumers attach more importance to exterior design, multiple options and other characteristics of passenger cars.

At the same time Chinese automakers have grown up at an amazing pace, frequently launching new models as sales of Shanghai Volkswagen weakened in the past two years.

In response, Shanghai Volkswagen boosted its own development capability instead of relying on existing foreign designs.

Volkswagen began developing "Model Y" in July 2004 - a working name for the Lavida.

"To get closer to our consumers, we assigned a local team to design the next generation, bringing together a global German marque with the particular needs of the Chinese customer," said Brustmann.

After almost four years of effort, the mixed-heritage front-wheel-drive Lavida made its debut during Auto China 2008 last month. It will hit the market in June.

"For Volkswagen, the Lavida will be a milestone because it is the first production car originally designed and developed entirely by a local team in China," says Brustmann.

"During the entire process from sketches to the final model, we developed not only a wonderful car, but also a wonderful team, a team that is an important part of Volkswagen's global designs," he adds.

Lavida, with the Chinese name Langyi, will be available in 1.6-liter and 2.0-liter engine capacity,

filling a gap for Shanghai Volkswagen in the biggest market segment in China.

Although the multiple option car will be part of Volkswagen's global product lineup, it has more than 80 percent Chinese content, according to Brustmann.

The research and development team for Lavida first attracted industry interest when their concept car Neeza was shown to the public during the Beijing auto show two years ago. The Chinese look of Neeza was derived from the image of Ne Zha, a boy-god in Chinese mythology.

The Neeza's popularity inspired further confidence in the venture's localization strategy.

Targeting the young independent generation, the car is designed with a solid, powerful and dynamic appearance along with a distinct and friendly interior.

The simple impression of the interior hides its complex design to accommodate all the required technology - from onboard navigation to airbags, from a CD player to USB ports.

As a member company of the official automobile partner of Beijing Olympic Games, Shanghai Volkswagen has decided to "make Lavida part of the Olympic fleet this summer," said Brustmann.

## Oil and gas

### China's LPG shortfall to hit 7.3 million tonnes in 2010

May 12 (Xinhua) -- China's liquid petroleum gas (LPG) shortfall is expected to hit 7.3 million tons in 2010, led by the country's surging industrial demand.

Bai Yi, deputy head of National Petroleum and Chemical Planning Institute, made the remarks at an industry forum held in the port city of Tianjin over the weekend, attributing the demand surge to soaring demand from the country's eastern and southern regions, and rural areas.

Representatives from academic institutions and the chemical industry took part in the forum to discuss important issues on the current and

prospective situation in China's chemical production industry.

Although clean energies, such as marsh gas, wind and solar energy have become more and more popular in big cities such as Beijing, Shanghai and Guangzhou, small and medium-sized cities are still keen to use LPG, said Bai, and there is potential growth in this market.

Consumption in small and middle cities in eastern and southern regions accounts for 62 percent of the total national volume. Growing demand for LPG has been recorded in glass, cement and pottery industries in these areas, said Bai.

Per capita LPG consumption in China hit 17.3 kg in 2006, but this was still well below the level of the European Union and the United States, said Bai.

Bai predicted that consumption growth of LPG will gradually slow in the next decade, because of the emerging liquid natural gas market.

According to the development plan of the country's oil industry, domestic demand of LPG is to hit 26.2 million tons in 2010, however, supply is expected to be only 18.9 million tons.

### **Leave food, oil prices to markets**

May 5 (China Daily) -- Publishing negative news can have a positive social effect. China has learned plenty of lessons about that in the last few years. Reports on the outbreak of SARS (severely acute respiratory syndrome) in 2003, and at the moment, on the spread of the hand-foot-mouth disease, caused by the virus EV71, are cases in point.

Just as in the latter case, when a nationwide coordination began over the weekend to combat a children's disease, little known earlier and never considered so dangerous, things that need to be done require a whole nation's support. These cannot be done by just a few officials when they are afraid to lose face, or even when they assume that somehow they can still manage things by themselves.

But little has been said about how the nation is going to deal with the inflation that is facing the entire world. For quite some time, the country

has been trying to keep the fuel price lower than in the global market. But in order to prevent fuel smuggling, it has to keep the supply to its southern coast, cities on the Pearl River Delta, at only a minimum level.

Many gas stations run out of their everyday stock by early afternoon and cannot resume service until 7:30 am the next day, as I noticed during a recent business trip to the province of Guangdong. A lot of inconvenience, and inevitably more waiting time, has been caused to local drivers and their companies. The opportunity cost is huge.

Now, there is another low-price supply in contrast with its surging price in the world. That is grain - particularly rice nowadays. When the price of rice in Thailand rose from some \$300 all the way to \$1,000 per ton in barely one and half months, its Chinese equivalent remains at no more than 2,000 yuan, or less than \$300.

Energy and food are the two key areas where inflation is strong, as a result of both the slow increase in crude output, and the substitute energy's encroachment of farmland. The world may only be at the beginning of relatively long, and occasionally tumultuous, cycles caused not only by its farewell to cheap oil, but perhaps also that to cheap food.

More importantly, early actions may be worthwhile before everybody is convinced that the current bout of inflation is having an annoyingly long cycle. Developing alternative energy and planting more trees both need time. And in both areas, entrepreneurs deserve to have sufficient price incentives to come up with new solutions.

A subsidy scheme, however, only helps entrepreneurs who provide the old supplies and actually tends to delay the work of other entrepreneurs who are working on the new supplies. This could be very harmful to the long-term health of the economy.

To restore the balance between energy and food supplies also requires the fine-tuning of many existing policies. The general price level of farmland, for instance, may be increased, along with those of some other key items, such as irrigation water and related services.

Some standards may also be readjusted in urban development, considering the possibility

for gasoline to become too expensive for most private car owners. To save residents' transport costs, a greater emphasis could be placed on public transport and housing projects not very far from the city center. But no one is likely to have a basis for rationally calculating what actions to take unless the market prices reflect the need for such changes.

There is really no need for the government to promise to the public that it can put an end to the price rises, which no government in the world can. Insisting that the economy is facing not an allround cycle of inflation but only "structural inflation", as some government economists did, makes even less sense.

A better way to react is to tell the public about the facts of the global markets, and to act in a timely way to show to the public what changes are needed. The only result of pretending not to see a problem is to let it become an even more deeply entrenched one. Why do we have to do that, after all?

### **China denies imminent plan to liberalize oil, gas prices**

May 22 (Xinhua) -- China's economic planning department on Thursday dismissed as a "groundless rumor" reports saying the country might liberalize the prices of refined oil and natural gas soon.

"Those reports and allegations that the government might liberalize oil and gas prices in advance, in June at the earliest, are groundless," an anonymous official with the National Development and Reform Commission (NDRC) told Xinhua.

Thursday's Shanghai Securities News also ruled out the possibility that China will end its grip on prices in the near future.

According to the newspaper, there were news reports on Wednesday alleging that the NDRC, the National Energy Bureau and the country's two largest energy companies, namely PetroChina and Sinopec, were in the final stage of their discussions about the liberalization of the fuel prices.

These reports claimed that the authorities would probably end price control on oil and gas in June, instead of the originally-planned August.

These reports had helped boost the share prices of PetroChina and Sinopec at the Shanghai stock market on Wednesday afternoon. The two stocks gained 9.99 percent and 6.63 percent respectively at the close.

The Shanghai Securities News, citing an official source, dismissed such reports, saying that it was impossible to liberalize oil and gas prices when China was in a critical period of earthquake relief and post-quake reconstruction.

The source said there were several reasons for why the government will not end its grip on oil and gas prices, such as the need to guarantee energy security in post-quake reconstruction and curbing inflation at a time of quake relief and reconstruction.

Another source with the NDRC told the newspaper that the government will absolutely take a risk to liberalize fuel prices in the near future as China needs to reconstruct quake-hit regions under heavy inflation pressure.

In addition, neither PetroChina nor Sinopec said on Wednesday that it had received any notice on the liberalization of oil and gas prices.

Over the last year or so, China has been faced with mounting pressure on inflation.

China's consumer price index, the main gauge of inflation, has risen from above three percent in March last year, to above 6 percent in August, and to 8.5 percent year-on-year last month, as a result of the robust national economy and domestic food price rises coupled with soaring international energy prices.

Also on Wednesday, crude oil prices shattered record highs and soared above \$133 a barrel after a report showed an unexpected drop in the US crude stockpiles.

### **China Jan-Apr oil import volume up 10%**

May 15 (Xinhua) -- Crude oil imports rose 9.8 percent year-on-year in the first four months of this year to 59.77 million tons, the General Administration of Customs said on Tuesday.

But the cost surged to \$40.3 billion, up 80.8 percent, due to higher global crude prices.

China exported 800,000 tons of crude oil, down 25.2 percent in volume, but the export value was up 27.6 percent to \$470 million.

Refined oil imports rose 9.2 percent to 12.68 million tons, while exports totaled 4.84 million tons, down 7.8 percent.

Some areas in China faced diesel shortages while refiners experienced losses resulting from domestic prices that were below world levels, which increased pressure on the government to adjust prices, customs said.

China has imposed price ceilings on domestic refined oil products amid efforts to curb inflation. It also cut import tax rates for most refined oil products from this year to ease supply strains.

The government raised the consumption tax rates on imported oil products such as lubricating oil and fuel oil from March. The move would increase the cost of imported refined oil and optimize the structure of consumption, said the administration.

### **Sinopec to halt oil products exports, raise output**

May 30 (China Daily) -- China's largest refiner Sinopec said it would increase its oil processing and halt oil products exports in the third quarter to ensure domestic supply.

"Sinopec will raise production, halt exports and adjust product structure to ensure domestic supply, especially for the reconstruction after the earthquake, the summer harvest and the Olympic Games," said Sinopec President Wang Tianpu.

Disaster relief is a top priority for Sinopec, according to the company. It will work in tandem with the government to keep the prices of oil products in quake-hit regions stable.

The company had made emergency deliveries of gasoline and diesel to earthquake-hit regions. It also ordered several of its refineries to raise output in response to the disaster.

China's largest oil company PetroChina also said it would increase its refined oil production to ensure supply for reconstruction and the summer harvest.

PetroChina has allocated 100,000 tons of refined oil in emergency supplies to Sichuan after the earthquake. By May 27, oil storage in Sichuan reached 252,000 tons, ensuring 16 days of supplies, the company said in a statement.

PetroChina will increase its oil supply to Sichuan, Chongqing, Shaanxi and Inner Mongolia by 20 percent for the summer harvest, the statement said.

Facing high crude prices in the international market, the government's control on domestic refined oil prices has caused big losses for the country's oil refiners. In the first quarter, Sinopec saw its net profit plunge 65.78 percent to 6.7 billion yuan.

This, happened even after the company got 12.3 billion yuan in government subsidies in March, of which 7.4 billion yuan was counted as first-quarter income.

PetroChina said its first-quarter profit fell 31.5 percent as refining losses and windfall taxes cut its earnings from record crude prices. Net income dropped to 28.9 billion yuan (\$4.16 billion) from 42.1 billion yuan a year earlier.

China exported 4.84 million tons of refined oil products in the first four months of this year, a decrease of 7.8 percent from a year earlier. In April, exports of refined oil products stood at 1.23 million tons, according to Customs figures.

From January to April, the country imported 12.68 million tons of refined oil products, up 9.2 percent, show Customs figures.

### **PetroChina sets sights on 45% market share**

May 7 (China Daily) -- PetroChina, the nation's biggest oil producer, plans to increase its share of the domestic oil refining market to 45 percent

by 2020 as demand for fuels and chemicals rises.

The State-controlled oil company will more than double annual refining capacity to 300 million tons by 2020, about 6 million barrels a day, Vice-President Shen Diancheng said on Tuesday. PetroChina currently accounts for about 40 percent of the nation's oil refining.

PetroChina and China Petroleum & Chemical Corp, or Sinopec, Asia's largest refiner, are boosting chemical production to supply manufacturers in the world's fastest growing economy. Rising wealth is driving increased sales of cars and pushing up consumption of gasoline and diesel. China will have to double refining capacity by 2020 to meet demand, Shen said.

"PetroChina and Sinopec are facing more and more competition from domestic rivals and are trying to shore up their market share," said Qiu Xiaofeng, an oil analyst at China Merchant Securities Co in Shanghai.

Sinopec plans to expand the capacity of its largest crude-oil processing plant by 15 percent by September next year to boost production of ethylene and fuels, its parent company said yesterday.

Sinopec Zhenhai Refining & Chemical Co's annual capacity will rise to 23 million metric tons, about 460,000 barrels a day, from 20 million tons, China Petrochemical Corp said in its company newsletter Sinopecnews.

PetroChina and Sinopec are expanding even as State curbs on fuel prices and record crude oil costs limit their ability to profit from selling fuels in the world's most populous nation. China controls fuel prices to limit their impact on inflation.

China's diesel prices are 2,840 yuan (\$406.19) a ton lower than the global level and those of gasoline are 2,745 yuan a ton lower, Shen said. That's causing "large-scale" losses at China's State-controlled refineries, he said.

"Everything is in short supply now. The supply of diesel and gasoline are very tight at the moment.

We still face pressure to ensure market supplies."

PetroChina's refining capacity will reach 165 million tons by 2010, about 40 percent of the nation's total, from about 140 million tons last year, Shen said. PetroChina plans to have six 10-million-ton-a-year refineries by 2010 and 18 such plants by 2020.

Rivals of PetroChina and Sinopec are increasing their market presence. China National Offshore Oil Corp, which has concentrated on oil and gas exploration, aims to increase its refining capacity fivefold to 60 million tons, Zhang Guoxiang, senior engineer at the company's Huizhou refinery, said recently.

Sinochem Corp, China's biggest chemical trader, is building a 12 million-ton-a-year refinery in the southern province of Fujian. The plant in Meizhou Bay will process 5 million tons of heavy crude when its first phase is completed by 2009, President Liu Deshu had said last year.

PetroChina's capacity to produce ethylene, a raw material used to make plastics, paints and household detergents, will rise to 4.57 million tons by 2010 and 12 million tons by 2020, compared with 2.71 million tons last year, Shen said.

### **To raise oil prices or not, that is the question**

May 13 (China Daily) -- Diesel sold out. This notice can be seen at many gas stations in the country. Diesel has been in short supply again in a number of provinces and regions over the past few weeks, with Guangdong, Guizhou and Yunnan being the worst hit.

Han Xiao, who works for a private firm, drove from Beijing to Guangdong with his friends recently. He looked tired and upset after having had to wait for what seemed like ages at gas stations on his way to Guangdong. The experience made the journey in his Audi A6 TDI more like a burden, he says. "It seemed our journey could end anywhere on the way. We came across many gas stations that didn't have any gas."

The government is in a dilemma because surging oil prices in the international market means it has to raise diesel and gas prices so that refineries continue to maintain their production levels. But any increase in prices is likely to jeopardize its efforts to curb the rising consumer price index (CPI), which was 8.5 percent in April.

"China has been experiencing oil shortage recently with the price of crude hitting new highs," says Feng Fei, director of the Development Research Center's industry department in the State Council. The price of oil has risen at a rapid pace over the past few years, increasing fivefold from \$25 a barrel in 2002 to \$126 on Sunday. This means different results for oil-related upstream and downstream industries. The exploration sector has been making huge profits, while the refineries and some other industries suffer huge losses, says Chen Wei, an oil expert.

Industries that depend on refined oil have been dealt a blow because of the rapid increase in prices. Among such companies is China's leading oil refiner Sinopec, and the country's textile, synthetic fiber, aviation and construction material production industries. "Domestic oil refiners have been losing money because they can't pass the high crude price to consumers," says Zhang Junsheng, a professor with the WTO research institute in the University of International Business and Economics in Beijing.

The price of crude in China is linked to the world market, but refined oil prices are under government control. The government has adjusted oil prices nine times since 2005, with the last being in November, when prices of gas, diesel and jet fuel were raised by 500 yuan a ton. In late March, Sinopec got 27.3 billion yuan (\$3.90 billion) in subsidies to tide over the losses it had incurred because of government price controls since 2005.

But despite that, the sharp difference in the actual and market price of oil remains high. For example, the prices of gasoline and diesel in the international market are about 8,000-10,000 yuan (\$1,140-1,430) and 7,000-8,000 yuan (\$1,000-1,140) a ton, but in China they sell for about 5,980 yuan and 5,520 yuan a ton.

"Low prices are dampening oil refiners' enthusiasm to produce more or to maintain their output levels", says Zhao Yumin, a researcher with the Ministry of Commerce. "Some enterprises, especially small private ones, have had to stop production to cut their losses because the more they produce, the more they stand to lose."

Jiang Jiemin, chairman of China National Petroleum Corporation (CNPC), the country's largest oil producer, says the company's refining division could break even only if the international price falls to \$66-67 a barrel. According to the CNPC, its refining and processing divisions lost 36.2 billion yuan (\$5.18 billion) last year, even though its exploration wing made a hefty profit.

Sinopec's oil refining business, too, suffered "heavy losses" - up to 2,000 yuan (\$286) for every ton of gasoline when the crude price was around \$100 a barrel in the international market.

So to what extent does international crude price make a difference in China? The country produced 186.66 million tons of oil last year (a growth of 1.6 percent over 2006), and according to Customs figures it imported 163 million tons of crude (up 12.4 percent). Since almost half of the country's oil is imported, we can gauge the impact that international crude price has on the economy.

These developments have given rise to speculation that the government will raise the price of refined oil to balance its domestic demand and supply mechanism, prompting some people and enterprises to stock up on gasoline and diesel.

Scorching price rise rumors, however, the country's two oil giants, PetroChina and Sinopec, have said on the National Development and Reform Commission (NDRC) website that the government has no intention of doing so. In fact, it is committed to ensuring enough oil supply.

"The government is worried that the higher price of oil could push up the already very high rate of inflation," says Zhou Dadi, director of NDRC's Energy Research Institute. Although the country's inflation, measured by the CPI, eased from 8.7 percent in February to 8.3 percent in March, the figure was far from comforting. April's

CPI, released yesterday, was 0.2 percentage point higher than in March.

On many an occasion, Premier Wen Jiabao has said that the government would tackle the problem of rising prices and mounting inflationary pressure, even though it was not an easy job. "Pricing is a serious problem, and timing is of the greatest importance because any delay could give create serious problems," says Zhang Liquan, a research fellow with the State Council, the country's cabinet. "Oil-dependent sectors, such as transport, building and textiles, will be hit the hardest if the price of refined oil is raised. And these sectors, in turn, will pass on the cost to others."

Zhao Jinping, deputy department director of the State Council's Development Research Center, says: "Raising the price of refined oil is not an easy job. To ensure that the interests of the people and industries are protected, the government has to take many factors into consideration."

"The price is likely to be raised at the end of this year or the beginning of next, but not before that," says Zhuang Jian, a senior economist with the Asian Development Bank's China Representative Office. Despite the government subsidies, Zhou Dadi concedes "it is a complex problem that could not be solved at one go".

Han, who drove from Beijing to Guangdong, best presents the complexity of the problem when he says: "On one hand, drivers may not need to wait for oil (if prices rise). On the other, I'm not willing to pay any extra amount. So the government has to find a better balance."

## Climate Change and Air Pollution

### China bans crop stubble burn-off to improve air quality

May 5 (Xinhua)-- BEIJING -- The Chinese government has warned farmers of an impending crackdown if they violate a ban on burning crop stubble in an effort to improve air quality in and around Olympic host cities.

The ban runs from May to the end of September in Beijing, Tianjin, Hebei, Henan, Shandong,

Shanxi, Anhui, Jiangsu and Liaoning, all areas around Olympic venues, said a directive from the ministries of environment protection and agriculture.

Beijing has been plagued by air pollution caused by crop stubble burning in areas around the capital over the years. In June last year, two days with very bad air quality were blamed on such activities.

The Ministry of Environment Protection also monitored aggravating crop stalk burning in major agricultural provinces like Hebei, Henan, Shandong, Jiangsu and Anhui from May to June last year to compare with the same period the previous year, the report said.

Farmers in China often burn crop stalks left after the harvest to clear the fields for the next planting.

The two ministries directed their respective local bureaus in the nine provinces and municipalities to step up surveillance and prosecution of stalk burning.

From May to September, the Environment Protection Ministry would use satellites to monitor the burning of crop stalks across the country and publish the results in the media, the Beijing News reported on Monday.

Beijing and six other cities are to co-host events for the Olympics, which begin on August 8.

### City to launch guidelines on greenhouse gas measurements

May 17 (HK Edition) -- The government will launch a set of guidelines in June or July this year to report on the emissions and removals of greenhouse gases (GHG) from buildings used for commercial, residential or institutional purposes.

The guidelines are being drafted by a task force which comprises experts from the Environmental Protection Department (EPD), Electrical and Mechanical Services Department and Architectural Services Department.

The Advisory Council on the Environment (ACE) has been consulted during the process.

The task force hopes users or managers of the target establishments can measure their GHG emissions through carbon audit, identify areas for improvement and carry out programs to reduce or offset the emissions.

Measuring electricity consumption, which is a major source of GHG emissions, will be part of the guidelines, the task force told the media after meeting the ACE on Friday.

The guidelines will also set out emission factors and other measurements to quantify GHG emissions and removals.

The task force added that the nature of operation matters much to the amount of GHG emissions.

"For instance, emissions of a news agency which operates 24 hours a day will be different from an office that only operates during the day," it said.

Buildings for industrial or other special purposes are omitted owing to the complexities of GHG emissions from these buildings.

Carbon audit will be introduced on a voluntary basis in the initial phase, but the ACE proposed to make it mandatory in mid- to long-term.

Reports drawn up may be disseminated to the public.

The ACE hopes tertiary institutions will be the first to volunteer for carbon audit as they have the expertise to assist the exercise.

To encourage participation, the ACE suggested the task force provide non-material incentive such as giving buildings that carry out carbon audit a special status.

Meanwhile, the government published in the Gazette the Air Pollution Control (Fuel Restriction) (Amendment) Regulations to mandate the use of ultra low sulfur diesel in industrial and commercial processes.

About 2,480 tons of local sulfur dioxide emissions are expected to be reduced annually.

The amended regulations will be tabled in the Legislative Council next Wednesday, and will take effect from October 1 this year if approved.

## Developed countries should lead in cutting emissions

May 26 (Xinhua)-- KOBE, Japan -- The Chinese delegate on Sunday called on developed countries to take the lead in cutting Greenhouse Gas (GHG) emissions and provide financial support and technology transfer to developing countries.

According to the United Nations Framework Convention on Climate Change (UNFCCC), the Kyoto Protocol as well as the Bali Roadmap, developed countries should first meet the above requirements, said Xie Zhenhua, head of the Chinese delegation, on the sideline of the G8 environment ministers meeting.

Upon this condition, developing countries can then proceed from their actual national situations and adopt measures and policies to pursue their sustainable development, said Xie, deputy chief of China's National Development and Reform Commission (NDRC), in a joint interview with Xinhua and other foreign media.

In this respect, technology transfer is a key element to implement the Bali Roadmap, said Xie, adding that in another sense, whether developed countries achieve their goal of GHG reductions or developing countries pursue their domestic policies on sustainable development, there must be a profound technological innovation to tackle climate change.

He said that only with a technological innovation could the goal of developing economy and preserving the biological environment be attained.

What China need most is the technologies in areas of energy conservation, energy efficiency and renewable energy development, said Xie.

Concerning the medium- and long-term goals of tackling climate change, Xie said that the parties concerned, typically Japan and the European Union (EU), differed greatly over the long-term goal, and the United States said that it will deliberate on the issue of the long-term goal but has not presented a concrete proposal.

We maintain that the establishment of a long-term goal needs thorough studies and scientific appraisals, said Xie. A country should adopt a rational and practical attitude and set a long-term goal on the basis of their actual conditions

and their phase of development as well as the general trend of climate change.

In our opinion, the discussion on the long-term goal will still go on for some time, said Xie, suggesting that is better to formulate the medium-term goal and determine what the international community should do by the year 2020 than to engage in a lengthy debate over the long-term goal, so that we can adopt measures to protect the environment of our earth as soon as possible.

In the past 15 years, China has registered a 47 percent decrease in its per capita GDP's energy consumption, said Xie.

And China is anticipating another 20 percent decrease in 2005- 2010, he added.

The G8 environment ministers meeting opened Saturday in the run-up to the G8 summit scheduled for July 7-9 at the Lake Toya resort in Japan's northern main island of Hokkaido.

Three major issues of biodiversity, climate change and 3Rs ( Reduce, Reuse and Recycle) are on the agenda of the three-day conference.

Environment chiefs and relevant officials from the European Commission, 10 emerging economies, including China, India and Brazil, and eight international organizations have also been invited to be present at the gathering.

The Group of Eight is composed of the United States, Japan, Germany, France, Britain, Italy, Canada and Russia, the eight leading industrial nations, whose heads of government hold regular meetings known as the G8 summit.

### **Chinese per capita CO2 emissions remain below US**

May 15 (Agencies) -- China's per capita emissions of carbon dioxide (CO2) will remain below US levels until at least 2025, said an official with the state economic planner, the National Development and Reform Commission (NDRC).

"This will mean less pressure from the international community for more drastic measures, and it allows China to pursue a more

flexible model for rapid economic development," said Ru Fangji, a senior engineer with the NDRC.

China is thought to have overtaken the US as the world's top producer of greenhouse gases, but with a population more than four times as large, per capita figures are more meaningful.

Speaking at a steel conference, Ru said that after 2025, China would work even harder to tighten environmental regulations and reduce emissions.

"From 2030 to 2050, China will enter a period of extremely strict environmental controls," he added.

The NDRC has been struggling to merge, phase out or shut down high energy-consuming and heavily polluting industries, with steelmakers often in the crosshairs of national closure campaigns.

### **Special supplement: Refining awareness**

May 27 (China Daily) -- Aluminum giant Alcoa has sought ways to minimize waste since its founder discovered how to cost-effectively refine the mineral 120 years ago.

As it moves into another century the company has made considerable progress meeting 2020 targets in minimizing emissions and rates of waste generation, including significant reductions in greenhouse gases (GHGs), volatile organic compounds (VOCs), nitrogen oxides (NOx) and the volume of waste disposed in landfills.

Eliminating sources of waste altogether is its ultimate goal - one Alcoa is now approaching by measuring waste generation and using modern technology for discharge treatment and control.

The company has a robust environmental compliance tracking system that ensures rapid correction of any unusual processing conditions, while its environmental team formulates and communicates best practices to ensure operations in all locations minimize potential impacts on the environment.

GHG reductions

In 1998, Alcoa established a strategy team that developed and promoted the company position on climate change, including its target of reducing GHG emissions by 25 percent from 1990 to 2010.

Alcoa reached the target in 2003 and maintained reductions since despite continuous growth in production.

Alcoa continues to pursue development of GHG-free inert-anode aluminum smelting, though technical and cost barriers remain. In the interim Alcoa is using CO<sub>2</sub> to neutralize bauxite residue and prepare it for long-term disposal reducing GHG emissions in the process.

The company is already using bio-diesel with 20 percent soybean oil or other non-petroleum content to power mobile equipment at some of its plants.

Alcoa is committed to decreasing the company's reliance on fossil fuels by increasing the use of natural, renewable energy sources that help lower carbon dioxide emissions.

The company's hydroelectric power facilities currently generate billions of kWh for its operations worldwide. The new Alcoa smelter in Iceland, which recently came online, uses hydropower to achieve one of the lowest levels of GHG emissions per ton of aluminum in the industry.

In Brazil, Alcoa is participating in the development of new hydroelectric plants that independent studies show will be environmentally sound, socially responsible and economically feasible.

The company reduced its per fluorocarbon (PFC) emissions from 4.2 million metric tons of CO<sub>2</sub> equivalent in 2005 to 3.7 million in 2006. All Alcoa aluminum smelters have programs in place to reduce these emissions and reduce the root cause - anode effects - is a continuing priority in its smelter operations.

Alcoa closely monitors PFC emission performance with a scorecard detailing each plant's performance against internal and external benchmarks that is shared among all smelters at the beginning of every month.

Another method Alcoa will adopt to reach its 2020 emissions goals is the expanded use of

recycled metal in its fabricated products. About 20 percent of its sheet, plate and extrusions are currently made from recycled aluminum. Its 2020 worldwide commitment is to produce 50 percent of those products from lower energy and GHG-intensive recycled metal.

Recycling of beverage cans now eliminates an estimated 2 million tons of CO<sub>2</sub> each year.

Aluminum is used in industries - and people's daily lives - throughout the world and Alcoa is bringing its long and wide-ranging experience in Europe and North America to China to cooperate on various projects, including aluminum-intensive buses, trucks and automobiles. The use of aluminum in transport applications can quickly pay for itself through fuel savings and GHG reductions.

According to company estimates, by 2020 or earlier aluminum used in automobiles, trucks, railroads and buses can save enough fuel to offset all GHGs produced by all the aluminum companies in the world and enable the industry to be a net reducer of GHGs.

#### Emissions reductions

Alcoa's strategic goals call for reductions in key emissions measured against a baseline set in 2000 - in absolute terms not related to continued growth in production. Despite the aggressive approach, Alcoa has made considerable progress on some of its targets, such as NO<sub>x</sub> and VOC emissions, both of which have registered reductions of 35 percent or more.

It also made progress on reducing SO<sub>2</sub> emissions. The company closed three lignite-fueled power units at its Rockdale, Texas, operation at the end of 2006, which resulted in substantial reductions in both SO<sub>2</sub> and NO<sub>x</sub> emissions. As well, a wet limestone scrubber system is being installed at its Warrick, Indiana power plant in the United States. The system will go online this year and is projected to reduce SO<sub>2</sub> emissions at the facility by 90 percent.

#### Waste minimization

Alcoa set the goal of zero waste disposed in landfills by 2015, with a mid-term goal of a 50 percent reduction in landfill waste by 2007 - a benchmark it hit in 2004.

It continues to make progress in converting a significant amount of waste from its smelting process, known as spent pot lining (SPL), into useful products. SPL is generated when the carbon and refractory lining of a smelting pot reaches the end of its serviceable life. In the last few years, Alcoa has been a leader in finding ways to transform this SPL waste into a raw material for other industries. It has worked with cement makers in several countries to develop an environmentally safe process to turn SPL into a resource for cement kilns. The new process treats chemicals of concern and at the same time uses the energy value of the material to reduce the cost of cement production.

Bauxite residue is the most significant solid byproduct of the alumina refining industry, with every ton of alumina resulting in about two tons of bauxite residue. Each of Alcoa's refineries handles bauxite residue differently based on local conditions. But the company continues to explore opportunities to use bauxite residue as a source material in a variety of applications.

Alcoa has developed, tested, and, in some cases, implemented processing modifications aimed at reducing the environmental footprint of storing residue by chemically rendering the material more suitable for reuse or long-term management.

### **Three Gorges reduces 200 m tonnes of CO2 emission**

May 10 (Xinhua) -- YICHANG, Hubei Province - Three Gorges Project, the world's biggest hydroelectric plant, has helped China reduce emitting 200 million tonnes of carbon dioxide as of Friday.

The power plant has generated 223 billion kwh of electricity since its first generating units began operation in 2003, also avoiding the emission of 2.29 million tonnes of sulphur dioxide, according to the China Three Gorges Project Corporation.

Chinese coal-fired power plants would have burned about 90 million tonnes of coal to produce the same amount of electricity, the developer and operator of the dam project said.

The company said improved navigation capacity along the dam area also contributed to reduction

in energy consumption and greenhouse gas emission.

The Three Gorges, which consist of the Qutang, Wuxia and Xiling gorges, extends for about 200 kilometers on the upper and middle reaches of the Yangtze River, the longest in China. They are a popular tourist destination, known for their natural beauty and historical and cultural relics.

China launched the Three Gorges Project, a multifunction water control facility, in 1993, with a budget of 22.5 billion US dollars.

According to the original plan, the project requires the construction of key facilities, including a gigantic dam, a five-tier lock, a ship lift and 26 turbo-generators. It has involved the relocation of at least 1.2 million residents.

The 26 turbogenerators -- 14 on the northern bank and 12 on the southern bank -- have a designed annual capacity of 84.7 billion kwh of electricity.

The project is expected to greatly reduce the threat of floods on the Yangtze.

To date, workers have completed installation of 22 generators on both banks of the Yangtze.

### **Plans call for a seamless cross-border environment**

May 8 (China Daily) -- Joint projects between Shenzhen and Hong Kong are expected to make breakthroughs this year in technological innovation, financial cooperation and construction of cross-boundary infrastructure.

The governments of Hong Kong and Shenzhen established a task force in March to speed up joint development of a 99-hectare border zone known as the Lok Ma Chau Loop.

The joint task force agreed that meetings will be held every six months to discuss planning and development of the zone, which lies between the boundaries of the two cities.

Officials also agreed that greater effort should be made to ensure progress and liaison on

studies concerning development of the loop and its checkpoints - Liantang in Shenzhen and Heung Yuen Wai in Hong Kong.

The task force decided that a study should begin this year to explore the feasibility of developing the loop for mutual benefit. Funding for the study will be shared between the two governments.

"Through this high-level mechanism and establishment of the joint task force and its working groups, the efficiency of the work on the loop and the control point will be enhanced," said Liu Yingli, executive vice-mayor of Shenzhen.

"This will contribute to sustaining the competitiveness of urban development on both sides and to promote prosperity for mutual benefit," Liu said.

#### HK model

After identifying Hong Kong as a role model last year, a top Shenzhen advisory body suggested that the local government study laws and consultation processes in Hong Kong to improve the mainland city's legal environment.

It was one of 12 suggestions submitted by a subcommittee of the Shenzhen Committee of the Chinese People's Political Consultative Conference (CPPCC Shenzhen) to promote cooperation between the two cities.

The proposal is listed as the most important advice given to the administration at the annual meeting of CPPCC Shenzhen that started in early April.

The subcommittee formulated the final proposal after more than two months of extensive studies and over 10 symposiums, further highlighting the importance of Shenzhen-Hong Kong collaboration, Zhong Zhiqian, chief of the subcommittee, told reporters.

"The city should solicit support from Guangdong province and the central government to make Shenzhen-Hong Kong cooperation part of national strategic planning," according to the proposal.

It asked the government to learn from Hong Kong and establish a system similar to the Independent Commission Against Corruption (ICAC) for a clean and efficient administration.

In addition, Shenzhen should learn from Hong Kong's emphasis on innovation and intellectual property protection, the subcommittee remarked.

The subcommittee also suggested Shenzhen make better use of its independent legislative power as a special economic zone to promote greater participation by the public in government decisions.

#### Enhancement on cooperation

In order to facilitate the flow of people and commerce between the two cities, the subcommittee suggested enhancement of border infrastructure. It also suggested that the governments of Shenzhen and Hong Kong develop industries with a competitive edge and encourage companies in the two cities to forge industrial alliances.

At the same time, the two governments should actively promote official, semi-official or non-governmental systems to better plan the development of the industries, the subcommittee recommended.

Other measures advocated include access to each other's educational resources and the funding of talent exchange programs.

Shenzhen and Hong Kong have been closer than ever after both governments pledged tighter cooperation last year.

The Shenzhen government said in a statement that it plans to become a cosmopolitan metropolis in 30 years through close ties with Hong Kong.

Evidence shows that Shenzhen is an increasingly worthy partner for its powerhouse neighbor Hong Kong.

After advocating closer integration with Hong Kong for years, the Shenzhen government finally received positive feedback from the special administrative government of Hong Kong, with Chief Executive Donald Tsang saying in his policy address last October that the territory will promote the development of the Shenzhen-Hong Kong international metropolis.

"We have visited several government departments of Hong Kong, including the planning and environmental protection agencies, to strengthen communication and seek further

common ground on Shenzhen-Hong Kong cooperation before making revisions to our long-term urban plan," Shenzhen planning chief Wang Peng told reporters.

#### Blueprint

The city released its urban planning draft 2007-20 last November for a month of public comment, outlining major goals:

Taking a firm foothold in the Pearl River Delta region and strengthening cooperation between Shenzhen and Hong Kong to jointly build a world-class metropolitan area

Improving cooperation on financial systems

Building a Shenzhen-Hong Kong innovation rim by enhancing cooperation and exchanges in research and development, innovation and the management and protection of intellectual property

Upgrading cooperation with Hong Kong in the hi-tech and high-end service industries.

Improving border crossings and transportation

Mutually improving the ecology of the region

Combined metropolis

According to a study by the Bauhinia Foundation Research Center, a Hong Kong non-governmental think tank, a Shenzhen-Hong Kong international metropolis could outperform London and Paris in gross domestic product to become the world's third-largest city, after New York and Tokyo, by 2020.

"It will be an innovative move for the two neighboring cities, with a population of 8 million and 10 million respectively, to seek mutual development while maintaining independent governance," Zhang Yuge, a senior researcher with the China Development Institute, a Shenzhen-based non-governmental institute, said.

"The combined metropolis will have more impact on the mainland's economy while playing a more significant role in global markets. That's a win-win situation."

Despite the different political systems under the "one country, two systems" policy, the two cities could improve infrastructure, trade and business

relations and build smoother communication between governments and non-government organizations, he proposed.

"It provides a good opportunity for Shenzhen, the weaker partner in the cooperation, to learn advanced management and experience from Hong Kong. Ultimately people won't have the feeling they are in another city after crossing the border," he said.