



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

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**AUTO/ENERGY/POLLUTION**

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## TABLE OF CONTENTS

<b>GENERAL ENERGY ISSUES .....</b>	<b>4</b>
World energy security vital for economy .....	4
Cashing in on China's renewable energy boom .....	4
Officials made accountable for energy saving .....	6
Increase energy efficiency .....	6
Sensible measures for energy security .....	7
New energy projects accelerated.....	8
'Clean coal' could offset petroleum shortage .....	8
Nation's power troubles may soon be solved .....	9
<b>AUTOMOBILE AND TRANSPORTATION.....</b>	<b>10</b>
Sino-French car venture aims to triple sales.....	10
Railway company wins approval for public offering .....	11
Car makers told to build brands .....	12
China plans to straighten out auto export .....	13
Car market defies pundits .....	14
Chang'an steers into hybrid car market .....	15
Auto sales growth slows .....	16
Low-emission cars popular in China .....	17
Chinese cars target US auto show .....	17
<b>OIL AND GAS .....</b>	<b>18</b>
Foreign exploration in oil blocks.....	18
China confirms natural gas discovery in South China Sea .....	19
New fuel tax plan accelerated in conservation drive .....	19
Oil prices hit record high, look set to break US\$80.....	20
China to develop coal gas as diesel alternative.....	21
China to carry out commercial oil reserve.....	21
CNOOC sees wave of new LNG deals by 2008 .....	22
Cooking-oil cars turn the tables on high fuel prices .....	23

91M tons crude oil produced in 1st half .....24

**CLIMATE CHANGE AND AIR POLLUTION ..... 25**

Beijing wipes out polluting factories for the Olympics .....25

Climate change time bomb is ticking fast.....26

Heatwave in Europe, US, but is it climate change? .....27

Britain and California to co-work on global warming.....29

Fears over impact of global warming on China's rivers .....30

First target consumption to improve environment.....30

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## General Energy Issues

### World energy security vital for economy

July 18 (Chinadaily)--President Hu Jintao yesterday called for international dialogue and co-operation between energy exporters and consumers to ensure global energy security.

To do this, the international community should work together to maintain a sound political climate favorable to safeguarding the stability of energy-producing countries and regions, the Middle East in particular, Hu said at the outreach session of the Group of Eight (G8) Summit that concluded in Saint Petersburg yesterday.

The meeting gathered the heads of G8 members the United States, Britain, France, Germany, Italy, Canada, Japan and Russia and leaders of six developing countries China, India, Mexico, South Africa, Brazil and the Republic of Congo to discuss energy security, prevention and control of infectious diseases, education, African development and other topics.

"To ensure global energy security, we need to develop and implement a new energy security concept that calls for mutually beneficial co-operation, diversified forms of development and common energy security," Hu said.

Energy security topped the agenda of the annual summit of the world's leading economic powers, which was hosted by Russia this year and took place at a time of strain in the global energy market.

Oil prices hit a record high last Friday of more than US\$78 per barrel because of the escalation of the Middle East conflict and the Iran nuclear stand-off.

Persistent high prices have adversely impacted global economic growth, which hurts the interests of both oil producers and consumers, Hu pointed out. "Global peace and regional stability are critical to ensuring global energy security," he said

"We should maintain a sound political climate favourable to ensuring energy security in international energy shipping routes and prevent

geopolitical conflicts from disrupting energy supply," he said.

"Energy issues should not be politicized, still less should countries willfully resort to force in tackling energy issues."

Speaking of China's energy policy, Hu said more than 90 per cent of the country's energy needs have been met with domestic supply since the 1990s.

"We will strengthen win-win co-operation with other energy producers and consumers on the basis of equality and mutual benefit," he said.

On Sunday, G8 leaders adopted a document on global energy security, hoping to reach some consensus at their annual summit on how to control and manage insufficient energy resources amid recent soaring oil and gas prices.

Despite differences between Russia, the only energy supplier of the G8, and other parties, they pledged in a statement to increase transparency, predictability and stability of global energy markets, improve the investment climate in the energy sector, enhance energy efficiency and energy saving, diversify energy mix, reduce energy poverty and address climate change and sustainable development.

At yesterday's meeting, Hu also called for multilateral co-operation mechanisms for preventing and controlling communicable diseases such as SARS and avian flu and the rampant spread of HIV/AIDS, tuberculosis and malarial.

### Cashing in on China's renewable energy boom

July 14 (Reuters)--China is set to spend \$200 billion on renewable energy over the next 15 years, and industry players are racing to grab a slice of the action.

That kind of money would buy you an oil firm the size of Chevron and leave change to fund the current renewable programmes of all Europe's top oil firms for 25 years.

So from the arid plains of Xinjiang to the rolling hills of sub-tropical Guangdong, Chinese and foreign firms are erecting 40-storey wind

turbines, installing solar panels, and conducting tests on corn for biofuel.

Beijing wants a tenth of its energy to come from environmentally friendly sources by 2010. Projects will need turbines, blades and other power components, which is why General Electric Co., Vestas Wind Systems and Gamesa, as well as homegrown firms China Solar Energy Holdings Ltd. and Suntech, are expanding capacity in the country.

"Renewable energy will likely become China's next boom sector with oil at historical high prices," said Norman Ho, a fund manager at Value Partners, which has invested in Chinese wind energy components supplier Nanjing Gearbox. "China needs energy to support its GDP growth." Crude hit a record above \$78 a barrel on Friday.

Analysts like Suntech and Shanghai Electric, but call attention also to budding niche players such as China Solar and Taiwan's E-ton Solar.

"We believe solar energy's high growth prospects, particularly off a small base, make it a viable component of any investment strategy focusing on the renewable energy theme," Merrill Lynch said in a recent research report.

Credit Suisse estimates the compound annual growth rate of China's wind power capacity at 39 percent in 2004-10 and 20 percent in 2010-20. "This represents a remarkable growth potential for manufacturers of wind turbines," Credit Suisse's Angello Chan said.

## **RISKS**

In the short run, teething troubles such as a shortfall of raw materials facing Taiwan solar player Motech Industries might be an issue.

And crucially, analysts warn of a potential regulatory about-face or waning enthusiasm, the absence so far of a detailed incentives-and-subsidies plan, and a lack of official experience in the area.

Credit Suisse also warned competition may put downward pressure on wind turbine prices, and thus margins.

Yet if all gels, China -- which claims already to be the top annual investor in renewable energy on the planet -- could leverage the world's highest wind-power capacity potential.

China aims to have 30 gigawatts of installed wind power capacity by 2020, up from just 1 GW last year and powering between 13 and 30 million households at full capacity according to industry estimates.

Beijing's new renewable energy policy, unveiled in January, aims to create a system of financial and policy support for the use of renewable energy, including preferential tariffs for fuels such as biomass.

Beyond 2010, the world's second-largest power user wants to boost consumption from renewable sources to a fifth of its total by 2020 and slash reliance on imported oil.

Alternative energy sated 7 percent of China's needs last year, and the country's top economic planning agency said up to US\$188 billion must be invested to reach the 2020 goal. Economic growth hovering at 10 percent will fuel power consumption over coming years anyway.

China Solar wants a six-fold profit leap next year, and the nation's top wind turbine maker, Goldwind, is pursuing a U.S. IPO to propel an eight-fold surge in sales to a target of \$500 million by 2008.

CLP Holdings, Hong Kong's dominant power supplier, is planning Asia's largest offshore wind farm in the territory.

And following a successful U.S. IPO by Suntech Power last December, Yingli Solar plans to raise \$400 million in the Nasdaq's largest IPO by a Chinese firm, the first of at least five waiting in the wings, sources have told Reuters.

Renewable energy projects need intensive and long term government support. Beijing appears to have the resolve -- and the need -- to push ahead, but a proper system of tax or policy incentives could take years.

"Solar energy today is still expensive," said Chan Ka Keung, managing director at the renewable division of CLP Holdings Ltd.

"It's beyond what we should consider on a commercial basis."

### Officials made accountable for energy saving

May 27 (China Daily)--The career prospects of provincial-level officials have been linked to their performance in achieving the central government's energy-saving targets.

Thirty deputy governors, mayors and heads of autonomous regions and 15 general managers of energy-guzzling State-owned enterprises yesterday signed an "accountability" pact with the State Council.

It calls for overall energy consumption per unit of gross domestic product (GDP) to be cut by 20 per cent during the country's 11th Five-Year Plan (2006-10).

It was not revealed what penalties, if any, would be meted out to those who fail to meet the targets.

"It's really demanding, but we must take all measures possible to fulfil the goals," Guo Gengmao, executive deputy governor of Hebei Province, said at the ceremony.

Ma Kai, minister of the National Development and Reform Commission (NDRC) the country's top economic planner said an appraisal system was being prepared for officials involved.

"The results of their endeavours will certainly be a factor in their promotions," said Ma. "The officials should not only take charge of developing the economy, but also improving energy efficiency."

Guo and several provincial chiefs said the efforts have to percolate to all levels, and they would "sign similar agreements" with county-level officials.

The country's top authorities have set two goals for the next five years: The first is to double per capita GDP in 2000 by 2010, and the other is to reduce energy costs per unit of GDP by 20 per cent.

Ma Kai, head of NDRC, warned that China's economy, which grew at a sizzling 11.2 per cent

in second quarter, rides excessively on investment and consumption of raw materials and energy. The inefficient growth pattern, in conflict with the environment and energy supply, "can no longer continue," he said.

Research by the State Council Development Research Centre, a think-tank, has shown that the energy-saving target is not easy to meet.

"Most local and grass-root governments are not fully aware of the situation," a researcher at the centre said on the condition of not being named. "That's why the central government has adopted this kind of accountability system."

An accountability system for officials was set up during the SARS outbreak in 2003; and since then, many grass-root Party and government officials or even those at the provincial level have been punished for their dereliction of duty in dealing with natural or man-made disasters. Last year, four vice-governors were disciplined for fatal coal mine accidents.

### Increase energy efficiency

July 21(China Daily)--The State Council executive meeting on Wednesday put forward a number of measures to cut the nation's energy consumption.

The meeting was held soon after the release of figures indicating high gross domestic product growth (GDP) in the first half of this year, signaling the central authorities' great concern about the energy situation as the economy maintains its strong growth momentum.

Although the concrete figures are not available to the public, it was revealed at the meeting that energy consumption growth exceeded that of GDP in the first half of this year and energy consumption per unit of GDP continued to rise.

The central leadership's worry is well justified now that the growth momentum of energy consumption remains strong even after the country set the goal of gradually reducing energy consumption by 2020.

As the first step, the country's 11th Five-Year Plan (2006-10) promised to ensure that overall

consumption of energy per unit of GDP would be lowered by 20 per cent within five years.

The goal for this year is to cut energy consumption per unit of GDP by 4 per cent. It appears to be very hard for us to meet the target this year.

Admittedly, it is impossible to instantly stabilize high economic growth and energy consumption. But if the trends continue unchecked, it will be too late for us to act.

The fact that energy consumption outpaced GDP growth in the first half of the year indicates that we were not fully prepared when we drafted our new energy targets last year. What we do in the second half of the year and the years to come will determine whether we can achieve the goals set for this year and the 2006-10 period.

The State Council meeting wrote out several good prescriptions. These will help make up for the loss in the first six months if we can translate them into real action.

One is to promote energy-saving industries, such as the tertiary sector, and encourage enterprises to save energy.

It will take fairly long period of time to make that industrial shift. And it is hard to make enterprises save energy if they remain insensitive to energy prices. An energy price reform that links energy prices more closely with market demand must be put in place if we want that to work.

Another solution offered at the meeting is to include energy consumption indices into the appraisal system for government officials at all levels.

In this way, government officials would be forced to pay more attention to energy saving efforts in their localities. They now seem more interested in local GDP growth rather than energy or the environment, which have little impact on their political careers. The State Council needs to further define such rules to make it a truly applicable policy.

## Sensible measures for energy security

July 12 (China Daily)--China's energy security has recently come under the spotlight, as the United States and other Western nations charge that China's scramble for oil and gas around the world has led to higher oil prices.

At an Asia-Europe Meeting (ASEM) Workshop jointly organized by China and Finland in Helsinki in early June, China's energy security and Europe's energy reliance on Russia were both topics of discussion. From this workshop, as well as my own analysis, four salient points could be clearly discerned on the former.

First, Beijing is right in strongly refuting Western allegations that it is largely responsible for today's oil price hike. As an official from one of China's biggest oil trading companies stated at the workshop, the "mark-up" in present oil prices is more due to intense speculation and political factors rather than purely economic or financial ones. True, the oil and gas industry's supply and demand situation remains unsound. This is due to a phenomenal increase in oil and gas consumption, as China and India develop, as well as the acute refining capacity shortage and the decline of relatively cheap and accessible sources of crude. But China cannot be arguably made the scapegoat for this situation.

Beyond supply and demand, China and India cannot be entirely blamed for the current oil and gas crunch and price hikes, as international tensions mount, from Nigeria and Sudan to Iran and Myanmar.

Second, like any nation, China has every right to ensure its own energy security. As a senior Chinese academic pointed out in Helsinki, Beijing currently does not face an oil supply problem or oil security concerns. In fact, China has never faced an oil supply crunch or had its oil supply disrupted since 1971, when the United States finally lifted its trade embargo against China. Like its neighbours, Japan and the Republic of Korea, China has rightly decided to build its own strategic oil reserves to the 100-day level, although the recent decision not to rush into this is equally laudable, so as not to cause too much tension on the oil market.

It was also reiterated that China would fully cooperate with the United States, the European

Union and Japan, as well as oil-producing states, in maintaining energy security and stability, so as not to cause any unnecessary upheavals or instability in the international oil and gas markets. As a responsible stakeholder and partner in international trade, China should stress this aspect more forcefully, as it also needs international stability to maintain sustainable development and continue with its economic growth. Stability therefore remains the key to international co-operation.

Third, the Chinese delegation stressed that China is diversifying its energy resources, as a means of ensuring its future energy needs. This diversification would emanate not only from its active development of different types of energy, such as nuclear, hydro, biomass and wind, but also ensure that the energy comes from more diverse sources around the world. A senior researcher from the National Development and Reform Commission's Institute of Energy stressed that other forms of renewable energy must be quickly developed to reduce China's reliance on fossil fuels, especially at a time when the latter's prices have rocketed. This would also help China's environmental protection efforts.

Fourth, China has made it clear it is also currently tightening its own domestic energy policies. According to the senior Energy Institute researcher, by 2020, China plans to double its reliance on renewable energy, especially from wind, solar, hydro and biomass energy sources. The Chinese Government is also currently drafting its energy and oil and gas laws, as well as its renewable energy development plan.

In fact, the oil industry official present at the workshop made it very clear that China's oil and gas consumption dropped in relative terms between 2004 and 2005 (from 28.43 per cent to 26.73 per cent), just as the proportion of coal usage has increased from 62.38 per cent to 63.44 per cent. Moreover, the role played by nuclear energy should increase over the next five to 10 years, as China strengthens its co-operation in this field with France and Russia.

### **New energy projects accelerated**

July 31(xinhua)--China is accelerating its construction of renewable energy projects

across the country, with hydropower and wind-power capacity to reach 180 million kilowatts and 5 million kilowatts by 2010.

Xu Dingming, deputy office director of the State Council Energy Leading Group, was quoted by the Shanghai Securities News as saying at the East Asia Investment Forum.

By 2020, the country's installed capacity of hydropower and wind power will total 300 million kilowatts and 30 million kilowatts respectively, he said.

The construction of renewable energy projects by 2020 in China will demand investment of 800 billion yuan (about 100 billion U.S. dollars), he said.

China also plans to build up biogas installed capacity of 30 million kilowatts by 2020, and solar installed capacity of 1.8 million kilowatts by 2020.

The Chinese government will set up special fund to support renewable energy projects, giving assistance to their research and development as well as favorable tax policies to relevant enterprises, he said.

China plans to raise its electricity installed capacity for renewable energy to 10 percent of its total power capacity by 2010 and 16 percent by 2020. Soaring oil prices have made renewable energy a priority for world and domestic investors.

### **'Clean coal' could offset petroleum shortage**

July 18 (chinadaily)--Nearly half of China's energy is expected to come from sources other than coal 15 years from now, as the country is determined to optimize energy consumption by alleviating coal dependency, experts and officials said yesterday.

Coal will be used in an increasingly clean and efficient way to protect the environment and ensure energy security, experts proposed in the "2006 China Energy Development Report,"

which was published by the Social Sciences Academic Press yesterday in Beijing.

As the world's second largest consumer of energy after the United States, China is heavily dependent on coal, which accounted for 67.7 per cent of its energy consumption in 2004, representing one-third of the coal used worldwide, Cui Minxuan, a researcher with the Chinese Academy of Social Sciences, said in the report.

In economies with a more balanced energy use structure, petroleum usually makes up 30 to 40 per cent of total energy consumption, while coal makes up a modest 10 to 20 per cent, Cui said.

Sixty-eight per cent of China's annual energy use since 2003 has been fuelled by coal, while less than 23 per cent came from petroleum, according to official statistics.

"To sustain China's economic growth along a rapid and sound track, the country must optimize its consumption structure by rapidly developing natural gas, hydropower and nuclear power and using more renewable energy," Cui said.

The optimized structure will translate into improved energy use efficiency and reduced total energy demands, he said.

In the annual energy development report, Cui and his colleagues predict that by 2010, 61.2 per cent of the country's energy consumption will still come from coal, but petroleum consumption will become a quarter of total energy consumption.

Natural gas, on the other hand, will double from the 2003 level to reach 5.3 per cent of the country's energy consumption.

By 2020, petroleum, gas and electricity combined will have a 46 per cent share of total energy consumption, while the proportion of coal will shrink to 54 per cent, according to the report. Hu Yuhong, an official with the China Coal Industry Association, yesterday said she believed the ratio of natural gas will continue to edge up in the years ahead, with projects launched to transfer gas from the country's west to its east and to import the gas from Russia.

But ultimately, coal will remain the major source of energy to fuel China's economy in the decades to come, she said.

## Clean Coal

With coal occupying such a dominant position in its energy pool, the country has been planning to improve coal use efficiency and has been studying clean coal technology since late 1980s, according to Huang Shengchu, chief of the China Coal Information Institute.

In a speech delivered yesterday in St Petersburg while attending the G8 Summit, President Hu Jintao called for international communities to step up co-operative efforts to develop clean coal technology.

Huang said China had been co-operating with South Africa and the United States in piloting and promoting clean coal technology in China.

Air emissions of sulfur dioxide and oxides of nitrogen associated with coal burning could be significantly reduced by liquefying coal, Huang said.

Hu of the China Coal Industry Association said Shenhua Group, a pioneer in developing the coal liquefaction business in China, had earmarked 25 billion yuan (US\$3 billion) for clean coal technology.

Last week, Shenhua signed an agreement with Royal Dutch Shell and South Africa-based Sasol to build two coal liquefaction plants in Ningxia Hui Autonomous Region in Northwest China.

Producing clean fuels through coal liquefaction is a strategic solution to offsetting the country's shortage of petroleum and balancing the country's energy structure, Cui said in his energy development report.

## Nation's power troubles may soon be solved

August 1(chinadaily)--China is expected to see its power shortages substantially eased beginning in the next half of this year, a senior official with the China Electricity Council (CEC) said yesterday.

"Power supply and demand will be balanced nationwide in the next half of the year, although short-term power shortages will still exist in a

few regions," said CEC secretary-general Wang Yonggan at a press conference in Beijing.

Power shortages only existed in four provinces in June, compared with 25 at the beginning of 2005 and nine in January.

Wang said power shortages had been remarkably relieved in the first six months of this year because more newly built large power stations were put into use.

In the first half of this year, China saw a newly installed power capacity of 32.41 million kilowatts, 11.1 per cent of which is from hydro power stations and 88.48 per cent from thermal power plants.

The nation generated 1.23 trillion kilowatt-hours of power during the first six months of the year, a year-on-year increase of 12 per cent, according to CEC.

Hydro power accounts for 13.76 per cent of energy generated, thermal power 83.93 per cent and nuclear power 2.02 per cent.

In the first half of the year, China's total power consumption reached 1.3 trillion kilowatt-hours, an increase of 12.89 per cent over the same period last year.

Wang estimated China's total power consumption in 2006 would increase by 12 per cent over last year.

The biggest power deficit will be 8 million kilowatts during the summer peak, which mainly appears in East China, North China and part of South China, Wang said.

Wang said China invested 75 billion yuan (US\$9.2 billion) on construction and reformation of electricity networks in the first six months, which had greatly improved the country's power transport capacity.

Wang said the power industry must work to reduce energy consumption per unit of GDP by 20 per cent, in accordance with the 11th Five-Year Plan (2006-10).

Consequently, renewable and clean energies such as hydro power and nuclear power would enjoy priority in the country's long-term development strategy.

In the first six months, China's standard coal consumption rate in power generation dropped to 362 grams per kilowatt-hour, 6 grams less than the same period last year.

## Automobile and Transportation

### Sino-French car venture aims to triple sales

July 4 (chinadaily)--Sino-French car joint venture Dongfeng Peugeot Citroen aims to triple its annual sales by the end of this decade from last year, and has been encouraged by a strong performance in the first half of this year.

Liu Weidong, the venture's general manager, told China Daily yesterday that it expects to sell more than 400,000 cars a year in 2010, up from 140,000 units in 2005.

"We hope to grab 6 to 8 per cent of China's car market by 2010," Liu said.

Last year, the venture's market share stood at less than 5 per cent.

Both Dongfeng Motor - China's third-biggest automaker - and PSA Peugeot Citroen control a 50 per cent stake of the venture, based in Wuhan, capital of Central China's Hubei Province.

From January to June this year, the venture's sales gained 38 per cent to 100,173 cars from a year ago, mainly boosted by the Peugeot brand, it said in a statement.

Peugeot sales at the venture rocketed by 113 per cent to 40,003 cars in the period, it said.

Meanwhile, the venture sold 60,170 Citroen vehicles, up 12 per cent.

The robust growth in the first half will help the venture achieve a full-year target of selling

200,000 cars, a target that was announced at the beginning of this year.

However, Dongfeng Peugeot Citroen still trails many rivals.

Shanghai GM, a joint venture between General Motors and Shanghai Automotive Industry Corp, yesterday announced its sales surged by 49 per cent year-on-year to 201,901 vehicles from January to June this year.

Chery Automobile, an independent Chinese carmaker based in East China's Anhui Province, said it sold 144,200 cars in the period, jumping 72.1 per cent.

Joint ventures involving other global carmakers in China, including Volkswagen, Hyundai, Honda, Nissan and Toyota, have not yet revealed their first-half results.

But all of them outsold Dongfeng Peugeot Citroen from January to May.

Dongfeng Peugeot Citroen's Liu said the venture made a profit in the first half of this year. But he declined to provide details

In April, he said the company aimed to reap at least 400 million yuan (US\$50 million) in profits this year by boosting sales and cutting costs, after reporting consecutive losses over the past two years.

Last year, it lost 360 million yuan (US\$45 million).

The venture announced earlier that it aims to cut costs by 1 billion yuan (US\$120 million) this year.

Liu said yesterday that the firm was facing great pressure to slash costs as a result of rising material prices, such as oil, steel, copper and aluminium.

Thanks to strong car demand and manufacturers' aggressive cost-cutting efforts, the auto sector in China have been experiencing a faster-than-expected increase in profits since January this year.

The sector's profits expanded by 70.8 per cent to 28.4 billion yuan (US\$3.6 billion) in the first five months from a year earlier, according to industry statistics.

During the period, sales of domestically-made cars rose by 44 per cent to 2.1 million units.

The Sino-French car venture started to build Citroen vehicles in the early 1990s and Peugeot cars in 2004.

Its current line-up includes the Citroen Fukang, Elysee, Picasso, Xsara and Triomphe, as well as Peugeot 307 and 206.

The Triomphe and 206 were launched earlier this year as part of the venture's nine new models planned from 2006 to 2009.

It will launch a new Citroen small-sized car later this year.

Dongfeng and PSA Peugeot Citroen plan to enhance manufacturing capacity at the venture's existing plant in Wuhan to 300,000 cars at the end of this year from 220,000 units now.

The two firms are also considering building a new plant for the venture to expand capacity further.

To facilitate sales growth, the venture has created an auto financing joint venture with the parent French carmaker and Bank of China one of the top four State-owned lenders to offer loans to local car buyers.

The auto financing venture will start up this month.

### **Railway company wins approval for public offering**

July 11 (chinadaily)--Daqin Railway Co Ltd is set to become the first rail company to be listed on the mainland bourse after gaining approval for a domestic initial public offering in Shanghai yesterday.

China Securities Regulatory Commission announced the decision on its website yesterday evening. It means the railway company could raise at least 14 billion yuan (US\$1.75 billion).

"Becoming listed makes Daqin Railway a pioneer," said Ou Guoli, a professor at Beijing Jiaotong University.

Stretching from Datong in Shanxi Province to Qinghuangdao in Hebei Province, the company's railway line mainly transports coal in North China.

The company's listing approval has opened up new possibilities for the Ministry of Railways, which is turning to different sources for funds to cover the huge expansion of the rail network, Ou said.

It is estimated China will spend at least 2 trillion yuan (US\$250 billion) by 2020 in reaching its goal of 100,000 kilometres of rail track, as set out in the Medium and Long Term Railway Network Development Programme.

Throughout the 11th Five-Year Plan period (2006-10) alone, 1,250 billion yuan (US\$156 billion) will be needed to pay for new tracks.

The ministry currently spends more than 100 billion yuan (US\$12.5 billion) every year. Half of this amount comes from the government's railway construction fund, and the rest comes from bonds and bank loans.

Getting profitable rail lines listed is one of the ministry's means to gather enough money for expansion.

Ou said a few other railways had tried to get listed before, but all failed.

Only the Guangzhou-Shenzhen Railway has been listed, in Hong Kong in the 1990s.

"Daqin Railway is relatively independent, focusing mainly on the coal transporting business, which makes it possible for Daqin to lead the way in getting listed," Ou said.

Daqin is reported to be the biggest railway transportation enterprise involved in the transfer of coal from west to east.

It provides a coal-transporting service for at least 380 power plants and five power corporations. It transported 153 million tons of coal in 2004 and 203 million tons in 2005.

The company achieved a 3.56 billion yuan (US\$445 million) net profit last year, with revenues of 13.1 billion yuan (US\$1.64 billion). It will use the proceeds mostly to fund an expansion project, Shanghai Securities News reported.

Insiders predict that the railway company is embracing a golden opportunity, since coal-transporting patterns are not likely to change over the next few years.

### Car makers told to build brands

July 27 (chinadaily)--China's car makers must strengthen efforts to build brands in order to fortify their foothold in the overseas market, senior officials and experts said at an automotive forum in Guangzhou yesterday.

Addressing the 2006 China (Guangzhou) Automotive Development Forum, Zhang Xiaoyu, vice-president of the China Machinery Industry Federation, said domestic car manufacturers should improve the quality of their products by attaching greater importance to R&D and improving innovation if they want to increase their share of the overseas market.

"The present export volume does not matter so much as brands," he said. "Technology-intensive products will mean better profits and will help to build up a good reputation for the products, which will play a decisive role in the final success of the products in the global market."

Zhang's remark pinpoints the fact that many domestic car manufacturers have been undercutting their products for a minor overseas market share instead of improving product quality as part of a long-term strategy.

Latest customs statistics indicate that the price of a China-made sedan was only US\$7,039 on average in the global market in the first four months of this year, a continued fall from US\$9,161 last year.

Zhang also called upon domestic manufacturers to focus on a few target markets rather than sending their products all over the world.

"To secure a target market, they should make

much greater efforts to improve after-sales service," he said. "Buyers will definitely turn to other foreign brands if they find the after-sales service hardly available."

Zhang's comments were backed by senior officials and the senior executives of car joint ventures at the forum. One of them is Zhang Ji, deputy director of the mechanics, electronics, and high-tech industry department under the Ministry of Commerce.

"China-made vehicles have gone primarily to the low-end markets in the Middle East, Africa and Southeast Asia; however, low-end products do not mean poor-quality products," the official noted.

He said technology-intensive quality products would help domestic vehicle makers steer clear of technological trade barriers one of the largest obstacles to China's vehicle exports.

"And the present global markets must be cultivated with development strategy and marketing strategy; they cannot be treated as merely experimental fields."

He said there is great potential for China's automobile export business and the State should hammer out more policies to keep its development on the right track.

He said a new policy would come into effect in 2007 to restrict domestic automotive companies that have not reached a set export volume from the export business in a bid to minimize undercutting.

A total of 1,025 companies were involved in the automobile export business in 2005, over 600 of which exported fewer than 10 vehicles, and 160 of which exported only one vehicle.

Official statistics indicate that China exported 172,639 vehicles in 2005, up 120.5 per cent from 2004.

The number of sedans exported in 2005 was 31,125, up 233.4 per cent on 2004.

And the nation exported 87,200 vehicles including 23,300 sedans in the first four months of this year, soaring respectively 140 per cent and 350 per cent from a year ago.

## China plans to straighten out auto export

July 13 (xinhua)--Fears that China's automobile industry could be harmed by a cut-throat export market have prompted the government to tighten control of the market.

A new regulation, to be issued next year, aims to raise the access standard for exporters and phase out poor performers, said Zhang Ji, of the Commerce Ministry.

The move comes in response to surging car exports that have led to declining profits and falling prices.

Customs statistics show vehicle exports rose from 20,000 in 2002 to 173,000 last year.

In the first four months of this year, the country exported 87,000 vehicles, more than half of last year's total.

In 2005, the value of complete vehicle exports reached 1.58 billion yuan, up 158.4 percent from the previous year.

The remarkable sales prompted a boom in export dealerships and fierce competition as exporters lowered prices, the Guangzhou-based 21st Century Business Herald has reported.

Of the 1,025 registered exporters last year, more than 600 exported fewer than 10 complete vehicles each, and 160 just one each.

Meanwhile, the price of complete cars exported dropped from an average 16,100 U.S. dollars in 1990 to 9,100 dollars last year. The price of a sedan fell from 8,700 dollars last year to 7,100 dollars in the first four months of this year, according to the ministry data.

Zhang said the country needed to standardize the cost of exports in order to prevent a drastic fall in prices.

The costs of environmental protection, land, and social responsibilities should be calculated into prices, he said.

Fu Peizhao, a senior engineer with the China Chamber of Commerce for Import and Export of Machinery and Electronic Products, agreed, saying inattention to after-sale service and spare parts supply would damage the Chinese industry's image.

The government was also reported to be reviewing penalties for enterprises engaging in unfair pricing.

### Car market defies pundits

July 12 (Business week)--Despite cool forecasts, the car-buying craze in China shows no signs of abating, as cash-flush buyers flock to a wide range of low-priced autos.

China's car crazy consumers continue to defy expectations in 2006. Earlier this year, most forecasters expected moderate growth in passenger car sales on the mainland, given the arrival of higher consumption taxes on big-engine cars, rising gas prices, and tighter bank lending as Beijing tries to cool off an overheated economy.

Yet while sales growth has tempered a bit in recent months, this year is shaping up to be anything but a sales stall for foreign and Chinese auto makers. First-half passenger car sales clocked nearly 50% growth over the year-ago period, according to the China Association of Automobile Manufacturers.

And total vehicle sales passenger cars plus trucks and commercial vehicles could finish the year up 74% or about 6.9 million units over 2005, the group is forecasting. "We are going to see huge growth in a huge market," says David Thomas, vice-president for distribution operations, Ford Motor (F) China, based in Shanghai.

The rollicking good times come from a confluence of factors. First, years of price declines plus rising incomes are making cars an affordable purchase for a big chunk of the public, particularly in big interior mainland markets, says Yale Zhang, a Shanghai-based analyst with auto consulting firm CSM Worldwide. "The real demand is coming from second-tier cities" such as Chengdu and Chongqing and not just rich coastal markets such as Beijing, Shanghai,

and Guangzhou. "Common people are starting to buy cars."

**BIGGER POOL.** To understand why, consider this: The average price for an entry-level compact, which ranges from \$8,000 to \$16,000 in China, has fallen by 28% since 2000 through the end of 2005, while other categories are off by more than 20%, according to data generated by J.D. Power, which like BusinessWeek is a unit of McGraw-Hill (MHP).

At the same time, China's rapidly expanding national wealth - personal savings hit a record \$1.7 trillion at the end of 2005 - is widening the pool of potential buyers. An estimated 100 million Chinese families now each have savings in excess of \$7,500, according to China's Union of National Passenger Car Market Information.

On top of that, China's legion of first-time buyers faces a huge array of model choices. Consumers are able to select from about 25 entry-level compacts such as the Chery QQ and Honda Motor's (HMC) Fit. According to Zhang's calculations, some 18 new models of all types were rolled out by big foreign and local auto makers in the first half and another 26 will arrive by year-end. "This is a record year in China's automotive history" for new product launches, he points out.

**FOREIGN DOMINATION.** Nor have efforts by the Chinese government to rein in bank lending to temper the mainland's white hot economic growth had much of an impact on car demand. After all, about 89% of middle-class Chinese surveyed by J.D. Power in 2005 paid in cash. That's not to say that they aren't demanding consumers. They typically spend more than a year's income for even a low-end car, so the financial stakes are exceedingly high (see BusinessWeek.com, 5/17/06, "What Drives Chinese Consumers").

For the moment, foreign auto makers such as General Motors (GM), Ford, Volkswagen, Toyota (TM), and Nissan (NSANY) - all of which are joint ventures with local Chinese partners - enjoy a dominating 80% of the domestic market. They have more compacts, sedans, and luxury nameplates in Chinese showrooms and plenty of marketing muscle. And foreign cars still enjoy a perceived edge in quality over local brands, all things considered.

The strong Chinese demand is providing a much needed lift to U.S. auto makers such as GM and Ford who are facing mega-problems with their critical U.S. market, now under a market-share assault from Japanese rivals. GM and its joint ventures in mainland China turned in record growth in the first half with a 47% jump in sales to 453,832 vehicles.

**FORD GROWTH.** That has enabled GM to secure a market-leading share (it displaced Volkswagen last year) of 12.5% of the total Chinese car market, vs. 10.8% this time last year. Shanghai GM, GM's flagship joint venture in China with Shanghai Automotive Industry (SAIC), is enjoying robust sales with such models as the Excelle sedan and Buick GL8 executive wagon.

Meanwhile, Ford, a relative latecomer to the Chinese market, now is the fastest growing brand in the mainland market, says David Thomas. Its portfolio of brands (Ford, Lincoln, Volvo, Jaguar, and Land Rover) turned in 101.8% growth in the first half, though from a smaller base of 74,395 units. Its key joint venture, called Changan Ford Mazda, produces the hot-selling Ford Focus, a mid-size passenger car, as well as the Ford Mondeo.

Thomas says the compact or small sedan segment remains a huge driver of industry sales, though Chinese consumers definitely "have a growing demand for added functionality and flexibility." Ford is placing high hopes on a five-door version of the Focus it will launch later in 2006.

**BETTER MARGINS.** Another pleasant surprise is that foreign auto makers' profit margins have held up relatively well this year, despite the deluge of product offerings and heavy price discounting. One reason is that overseas manufacturers have lowered their production costs in recent years by expanding their mainland-based auto parts supply networks, thus dodging the steep tariffs China imposes on imported components.

"Over the past two years and after cost cutting, profit margins are getting better this year" among major foreign and Chinese auto makers, says CSM's Zhang.

Of course, China's auto industry still faces a huge over-capacity gap. With the average cost

of a gallon of fuel hovering just below \$7, sales of gas-guzzling sport-utility vehicles are under pressure and the possibility of a boom-bust scenario with the larger Chinese economy could spoil the industry's joy ride going forward. Yet for now it looks like the mainland auto industry will defy earlier predictions of a less-than-stellar year.

### Chang'an steers into hybrid car market

July 11 (chinadaily)--Chang'an Motor Corp, the Chinese partner of Ford Motor and Suzuki Motor, said it will enter the increasingly popular hybrid sector in the world's No 3 vehicle market by offering its own-brand petrol-electric cars.

The nation's fourth-biggest auto group based in Chongqing Municipality told China Daily that it plans to embark on commercial production of hybrid cars in 2008.

The company expects hybrid cars will contribute 10 per cent of its own-brand sales annually by 2010, it said.

Hybrid cars twin a conventional engine with an electric motor to improve fuel efficiency and mileage.

Chang'an said it will spend 250 million yuan (US\$31 million) on hybrid cars as part of its total investment of more than 5 billion yuan (US\$620 million) to develop own-brand cars in the years to 2010.

It began petrol-electric car development in the late 1990s.

The group said hybrid cars would also be available for its overseas expansion.

It announced last month that it aims to lift overall sales from 630,000 vehicles in 2005 to 1.5 million units by the end of the decade, with more than half from its own nameplates. It said it hoped overseas sales would account for 25 to 30 per cent of own-brand sales by then.

The group's hybrid car push comes after a slew of foreign auto giants and other domestic producers began, or announced they would start,

making petrol-electric cars in China, where oil is in short supply and fuel prices are growing rapidly.

Japan's Toyota Motor began production of its 1.5-litre Prius hybrid sedan at the end of 2005 with another Chinese auto group, First Automotive Works Corp. The move made the world's No 2 carmaker the first producing hybrid vehicles in China.

Maple, the Shanghai-based unit of China's biggest privately owned carmaker Geely Automobile, also plans to enter the hybrid car sector in 2008 with an initial output of 5,000 to 10,000 units a year.

However, analysts said there are many obstacles in China to the growth of hybrid cars, despite huge potential in the long term due to their capacity to save fuel.

The biggest hurdle is that hybrid engines are still much more expensive, which drives up the cost of petrol-electric cars.

### Auto sales growth slows

July 12 (chinadaily)--China's passenger car sales growth slowed to 5.8 per cent in June from May's 24 per cent high, as rising fuel prices deterred consumers.

Sales of passenger cars, multipurpose vehicles and sport-utility vehicles rose to 396,400 units last month, the China Association of Automobile Manufacturers said in a statement yesterday.

Production expanded 15.9 per cent since June last year to 425,900 units, it said.

China, the world's second-biggest energy consumer, raised fuel prices on May 24 for the second time this year.

Retail prices for the most common grade of gasoline have risen by about 15 per cent to 5.09 yuan (64 cents) per litre in Beijing, according to the Price Association of Beijing, a government-affiliated group.

"Chinese first-time car buyers are very sensitive to costs and rising petrol prices make them very

concerned," said Song Bingshen, an analyst with China Securities Research Co in Beijing.

Better than average sales in June last year also led to the decline in growth this year.

Automakers sold 375,500 units in June 2005, more than the average monthly sales of 330,833.

Total vehicle sales, including trucks and buses, rose 8 per cent to 557,600 units last month and production expanded 15 per cent to 573,700 units, according to the association

General Motors Corp, Volkswagen AG, Chery Automobile Co and other automakers sold a total of 2.51 million passenger cars in the first half, 37 per cent more than a year earlier, while car production rose 40 per cent to 2.6 million units, according to the association.

Total vehicle sales rose 27 per cent to 3.53 million units, while production grew 29 per cent to 3.63 million units, it added.

SAIC Motor Co, FAW Group, Dongfeng Motor Corp, Chang'an Automobile Group, and Beijing Automotive Holdings Corp were the nation's top five automakers in terms of vehicles sold in the first half.

Sales by the 10 carmakers accounted for 84 per cent of the nation's total.

The companies operate assembly ventures with foreign automakers including GM, Volkswagen, Toyota, Nissan, Ford and Hyundai.

Rising gasoline prices also weakened sales of sport-utility vehicles that use more energy than compact cars.

Total sales of sport-utility vehicles fell 15 per cent in June to 14,800 units, according to the association.

Shanghai Wanfeng Auto, a privately owned sport-utility vehicle maker, has suspended production as low sales volume led to bankruptcy, the Oriental Morning Post reported on June 14.

## Low-emission cars popular in China

July 9 (AFP)--Fuel-efficient cars with low emissions proved popular in China's auto market in the first half of this year, accounting for half of the top-10 best selling vehicles.

Xiali, manufactured by the Tianjin FAW Xiali Automobile Co. Ltd. and popular for its low energy-consumption, kept its number one position on the list of top selling low-emission cars, Xinhua news agency said.

The company sold 93,800 Xiali vehicles in the first six months of this year, said Xinhua, which cited statistics from the China Association of Automobile Manufacturers.

Xiali was followed by the Excelle of Shanghai General Motors and the Elantra from Beijing Hyundai, with sales of 86,900 and 85,400 respectively.

Insiders attributed the popularity of low-emission cars to soaring oil prices and preferential government policies on vehicles with low emissions, Xinhua said.

China has raised the price of processed oil twice in the first half of this year, hiking costs by 300 yuan (US\$37.5) per ton in March and by 500 yuan per ton in May.

Earlier this year, the government also began promoting small, low-emission cars as oil prices remained high and environmental concerns grew over the nation's fast-rising auto culture.

It ordered the lifting of restrictions on small cars, which were banned by some local governments due to fears that the cheaper vehicles would cause an explosion in vehicles on the road.

The government is also considering creating a new tax system for the auto industry that would promote low-emission cars and penalize large, petrol-guzzling vehicles.

Consumption taxes on vehicles with engines smaller than one litre may be cut from three to

one percent, while taxes on engines bigger than three litres are likely to rise from eight percent to 14-20 percent, the paper said.

The number of private cars on China's roads has nearly tripled in five years, with previously released government data showing there were around 17 million last year, up from 6.25 million in 2000.

## Chinese cars target US auto show

July 6 (chinadaily/agencies)—At least four Chinese automakers are expected to take display space at the 2007 North American International Auto Show in Detroit, US media reported.

In January 2006, China's Geely Automobile made debut by a Chinese carmaker at the US auto show. It exhibited a \$10,000 small sedan to reporters only in a booth outside the show's main hall. This year, Geely will come back

Moreover, three other companies, including Hunan Chang Feng Group, Great Wall Motor Company and Hebei Zhongxing Automobile Company, are also in talks for display space in Cobo Hall of the January 2007 show, said the Detroit News.

US show officials said it's a prelude for the entry of Chinese-made cars to the United States.

Though still a small player compared to the world's biggest auto manufacturers, Chinese carmakers are considering measures to boost their overseas sales.

The Chinese government also hope that automobiles will become an increasingly important component of the country's exports, according to earlier report.

Geely, the Chinese mainland's largest private automaker, last year sold about 7,000 sedans in more than 30 countries and regions, mostly in the Middle East, Africa and Central America. It announced plans to begin exporting cars to the US mainland in 2008.

Zhongxing wants to sell 40,000 vehicles in the United States annually starting next year, including a pickup and an SUV.

The Chery Automobile, an independent Chinese carmaker based in East China's Anhui Province, hopes to enter the US market in 2008, the newspaper said.

## Oil and Gas

### Foreign exploration in oil blocks

July 17 (Shenzhen daily)--China will allow foreign companies a rare chance to conduct exploration for oil and gas in parts of the resource-rich Tarim Basin in the northwest of the country, the country's top energy company says.

The China National Petroleum Corp. (CNPC), the nation's largest oil and gas producer, said it will invite bids from foreign companies for exploration in nine potential oil and gas blocks in the basin.

"We're inviting foreign partners to jointly explore the largest gas and oil basin on the Chinese mainland," CNPC, the parent of PetroChina, said in a statement on its Web site.

It said several foreign oil companies had already expressed an interest in participating in projects in the Tarim Basin but provided no names.

The statement suggested that a major motive of permitting foreign participation was to attract technological know-how from overseas.

"CNPC plans to introduce the latest exploration concepts and advanced technology to raise the level of proven reserves," it said.

The nine blocks now open to foreign exploration involve a total area of 110,000 square kilometers, the CNPC statement said.

The CNPC did not provide the exact location of the blocks but said they are located in the southwest, the center and the east of the basin, located in the vast Xinjiang region

The basin is considered key in China's efforts to boost its energy security in the coming years and as a possible replacement of oil fields such as Daqing in Northeast China, which are approaching exhaustion.

CNPC is an active participant in China's efforts to secure enough energy for the future and is cooperating with several large foreign majors.

It is expected to reach a consensus with Gazprom, Russia's state-owned natural gas monopoly, by the end of the year for the import of gas through two cross-border pipelines, the China Daily newspaper reported Friday.

The two companies have reached an initial agreement to build two pipelines to transport up to 68 billion cubic meters of Russian gas to China annually, according to the newspaper.

"We are in very detailed negotiations about the project and pricing is currently the biggest hurdle, as the seller is always asking for more in the current bullish global market," a CNPC official said.

"We expect to reach a final accord over the price by the end of this year," he said.

The westernmost of the two pipelines will carry Siberian gas to the Xinjiang region,

where it will connect with the West-East Gas Pipeline bringing energy to China's prosperous and densely populated east coast.

China has traditionally limited foreign access to its onshore oil and gas resources but as demand for energy to power its booming economy has grown, it has opened the door and in March Petrochina signed a deal with Total of France on exploration in the Erdos Basin.

### **China confirms natural gas discovery in South China Sea**

July 15 (xinhua)--China's Ministry of Land and Resources has confirmed the discovery of huge natural gas reserves in South China Sea.

In a circular released on Thursday, the ministry announced the discovery of natural gas reserves exceeding 100 billion cubic meters in a prospect well named LW3-1-1.

It may be the largest offshore natural gas discovery ever made in China, said the ministry.

The discovery is also one of the several great oil and gas discoveries ever made in the first six months of 2006 around the world, said Ian Cross, vice president of International Petroleum Information, IHS, a famous global technological information provider.

Located at the Pearl River Mouth Basin 250 kilometers from Hong Kong, LW3-1-1, drilled at a depth of 1,480 meters, is China's first deepwater well with a drilling depth of more than 1,000 meters.

The "important" discovery showed the huge potential reserves of oil and gas in South China Sea, the ministry said.

The ministry's announcement confirmed the natural gas discovery made by Canada-listed Husky Energy Inc, the operator of the prospect well.

Husky estimated last month that LW3-1-1, the first prospect well drilled at the production sharing contract (PSC) block with the China National Offshore Oil Corporation (CNOOC), China's largest offshore oil producer, contains a potential recoverable reserve of four to six trillion cubic feet (113 to 170 billion cubic meters) of natural gas.

Following the Husky news release, the China National Offshore Oil Company Limited (CNOOC Ltd), a 70.64 percent held subsidiary of CNOOC, saw a 12-percent rise of its share price on the Hong Kong Exchanges and Clearing Limited (HKEx) over two days.

Four days after Husky's announcement, however, a statement released by CNOOC Ltd on the HKEx said the discovery needed further evaluation and governmental confirmation.

China launched its strategic exploration and appraisal of potential oil and gas reserves in the northern part of South China Sea in 2004.

### **New fuel tax plan accelerated in conservation drive**

July 27 (xinhua)--China has accelerated plans to impose a tax on gasoline, diesel and kerosene to encourage conservation amid surging oil imports, a government news agency said Thursday, citing a Cabinet official.

The report by the official Xinhua News Agency didn't give a timetable for imposition of the tax.

The government wants to roll out the tax in the near future and is closely watching world oil prices, Xinhua said, citing Vice Finance Minister Liao Xiaojun.

Introduction of the long-planned tax had been postponed because the government said current oil prices were too high for the Chinese public to bear the added cost.

But the government is worried about soaring fuel consumption and the threat of worsening air pollution in China's smoggy cities amid a boom in the number of private vehicles on the road.

Soaring demand for gasoline, diesel and kerosene will reach 230-250 million metric tons in 2020, up from 75 million tons in 2000, according to a recent Xinhua report.

Liao said the government is studying possible tax measures to promote use of renewable energy sources, including solar, geothermal, and hydropower, Xinhua said.

China's government says it wants to cut energy consumption per unit of economic output by 20 percent by 2010 while also reducing pollution.

### **Oil prices hit record high, look set to break US\$80**

July 15 (chinadaily)--Oil prices hit record highs of more than US\$78 per barrel on Friday, continuing to test uncharted territory as Israel's offensive in Lebanon and the Iran nuclear issue sparked fears of a wider Middle East conflict, dealers said.

They said it is probable that oil will break US\$80 per barrel soon, with the upcoming September contract already quoted at above US\$79.

The price of US\$100 per barrel has been mentioned as a distant possibility.

At 2:10 pm (0615 GMT), New York's main contract of light sweet crude for delivery in August was quoted at US\$78.10 per barrel, up US\$1.40 from its last settlement of US\$76.70.

Oil pushed higher still to hit an all-time high of US\$78.40 in after-hours electronic trade before some profit-taking took it off the top.

Brent North Sea crude for August delivery was at US\$77.52, down from its peak price of US\$77.76.

"It seems like hitting US\$80 a barrel is inevitable," said Victor Shum, a Singapore-based analyst with energy consultancy Purvin and Gertz.

"We're in uncharted territory. It is a result of a confluence of a number of geo-political events in a tight market that shows healthy demand growth," he said.

"The factors are getting together in a tight market and we haven't even got our first hurricane in this US hurricane season, so pricing is going to remain strong."

Shum said that oil at US\$100 a barrel "is still quite a bit off from where we are today (but) there is certainly the potential for it to hit that."

Tony Nunan, the Tokyo-based manager for energy risk management at Mitsubishi Corp, agreed US\$100 oil is now a possibility.

"I don't want to cause panic in the market but I think the market has to understand that triple-digit (oil prices) are not a fantasy anymore and are definitely possible," he said.

"We'll definitely be seeing US\$80 (per barrel). It could either gradually escalate or it could explode."

Liu Gu, a senior oil analyst with Shenzhen-based Guotai Jun'an Securities (Hong Kong) Co Ltd, said increased oil prices would take

toll on China's economy because more than 40 per cent of its supply comes from imports.

"The government may increase the price for processed oil again," Liu said.

On May 24, the National Development and Reform Commission, the country's industrial planning body, raised the prices of gasoline, diesel oil and kerosene for aviation by 500 yuan (US\$62.5) per ton.

### **China to develop coal gas as diesel alternative**

July 12 (xinhua)--The Chinese government is to support the development of dimethyl ether (DME), a gas derived from coal, as a possible alternative to diesel.

A circular from the National Development and Reform Commission (NDCR) said standards for the use of DME as a civil fuel were being drawn up.

A gas under normal pressure and temperature, DME could be compressed into a liquid and used as an alternative to diesel. Its low emissions made it relatively environmentally friendly.

Domestic and overseas research showed it was expected to become a major fuel and was suitable for China's energy structure, said the circular.

DME-fueled vehicles have been developed by Shanghai Jiaotong University and Xi'an Jiaotong University as well as in Japan and the European Union.

The Xinhua-run China Securities Journal reported on Wednesday that Shanghai Municipality planned to open the first DME-fueled bus line this year and operate 1,000 such vehicles before the World Expo in 2010.

With little likelihood of world oil prices dropping significantly, alternative energy solutions were

becoming more effective, said Zhang Guobao, vice chairman of the NDCR.

The China Securities Journal said China's estimated annual DME output from planned refineries was 500,000 tons.

Water resources and capital were the main restrictive factors as production of one ton of DME would use as much as three tons of water.

However, coal resources were also limited and DME would be a stopgap solution to China's energy problems, said the China Securities Journal.

Zhang warned against over-investment in the coal chemical industry.

The NDCR suggested at a meeting in June that policies for the development of DME and establishment of industrial standards be accelerated.

### **China to carry out commercial oil reserve**

July 21 (shanghai daily)--China is preparing to set up a company to manage the country's strategic petroleum reserves, Beijing Morning Post reported today. The National Development and Reform Commission, China's top economic planning body, has drafted a plan and has handed it to the State Council.

The company will control China's strategic oil reserve bases as well as the oil reserve stored by Chinese companies. The company will govern all of the state-owned petroleum companies on how much to reserve, how to reserve and when to reserve.

It will be a solely state-owned company under the management of the central government, the newspaper said.

This indicates that China is attempting to improve its petroleum reserve system by

implementing two sets of reserves; the compulsory commercial reserve and the governmental reserve.

China has kicked off construction on its reserve bases in 2004 and plans to start filling its oil reserves this year.

The construction of Zhenhai, China's first base, is almost complete. It will be capable of holding 5.2 million cubic meters of petroleum.

Xu Dingming, director general of the Energy Bureau of the National Development and Reform Commission, said the construction of the other three bases is on schedule. Xu told the ongoing "2006 International Strategic Development and Investment on Energy Summit" that the Zhenhai base still needs a government inspection and approval to begin operating, but he gave no dates.

Authorities are now selecting sites for the second phase of bases, with reserve capacities of 200 million barrels.

### **CNOOC sees wave of new LNG deals by 2008**

July 29 (Reuters)--China National Offshore Oil Company (CNOOC), leading the country's move into the liquefied natural gas market, hopes to soon announce its first new LNG supply deal in four years, signalling its readiness to pay higher prices, a company official said on Friday.

The deal will be the first in CNOOC's renewed drive to secure supplies for five planned import terminals by the end of next year, the senior official, who wished to remain anonymous, told Reuters.

"We have made substantial progress on the supply talks. We have the ability and determination to secure supplies within this and next year for our five terminals that are planned and approved," the CNOOC gas official said.

The official declined to comment on specific deals but said the firm expected to make "some announcement" in two to three months. Chinese media reported this week that CNOOC was in advanced talks with Malaysia to supply the Shanghai terminal.

The comments are among the first to suggest that Beijing is willing to face the market reality that global gas prices have raced sharply higher since China's first deal with Australia in 2002, and that its ambitious goal of boosting use of the green fuel may flop if it further stalls on supply talks.

"There were some misunderstandings about China in the market. We will operate our business in line with market rules," the CNOOC official said, in an acknowledgement of higher prices.

LNG contract prices have doubled since CNOOC's first landmark deal agreed four years ago at about \$3 per million British thermal unit (BTU), analysts estimate.

With demand set to grow swiftly in a global rush to embrace a fuel that is cleaner than coal and cheaper than oil, few expect prices to ease.

CNOOC, which started up the country's first LNG terminal in southern Guangdong province last month, has plans to build another four projects in Fujian, Shanghai, Ningbo and Zhuhai, all on the east and southeastern coast, by around 2010.

A second phase of its Guangdong terminal will raise capacity by 6.2 million tonnes per year (tpy), while the other four projects would need 3 million tpy each from around 2010, officials have said.

In total, CNOOC could need to buy as much as 18 million tpy of LNG, near the imports into South Korea, the world's second-largest buyer of the super-cooled gas.

The fuel is crucial if China hopes to achieve its goal to more than doubling the share of gas in its energy mix by 2010, despite a pair

of massive domestic natural gas finds this year.

Already faster-than-expected demand growth from urban users and industries in the booming coastal belt has led to supply shortages due to unprepared infrastructure and low prices.

The market dilemma CNOOC faces is shared by its domestic rivals Sinopec Corp. and PetroChina, both of which have planned a combined half dozen terminals along the northern coast in a race to kick-start the nascent LNG sector.

But with most LNG supplies through 2012 pre-sold to Japanese or Western buyers from new projects in exporters such as Australia and Qatar, China may have to seek less established suppliers with short-term availability, industry experts say, settling for five-to-10 year contracts instead of the usual 25.

Possible options may include Indonesia, which has stalled on renewing major Japanese contracts that expire in 2010, and Iran, whose entrance into the LNG market has been set back repeatedly.

### **Cooking-oil cars turn the tables on high fuel prices**

July 24 (china daily)--A growing number of Americans are setting up mini-refineries in their homes to produce biodiesel, a fuel made from waste cooking oil which is cleaner and cheaper than the petrol sold in gas stations.

The sky-high price of crude oil is scaring everyone.

Biodiesel has Hollywood backers like actress Julia Roberts and Morgan Freeman, is sung about by country star Willie Nelson but also meets the political correctness of the American right wing which has made the campaign against imported oil a mantra.

"It's better for the engine, way better for the environment, it's cheaper, but it depends how you price your labour," said Dan Goodman, an entrepreneur in residence at the University of Maryland Business School who runs his Mercedes on biodiesel.

There are two ways to get on the biodiesel bandwagon, Goodman said. Either you change the engine and just put in waste oil, which would not be strictly legal in the United States, or you can modify the fuel into biodiesel, which is legal and works in any diesel car.

Biodiesel plants are a boom industry in America, but thousands now make fuel in their garages from the oil left after frying french fries or scrounging around restaurants and food factories.

"It's easy when you know how to do it," Goodman said, though he warned that the process "can be hazardous," since it involves flammable products and caustic vapours that require a well-ventilated production site.

"You filter the waste fried oil to remove the glycerol, the most sticky part, and then replace it with an alcohol molecule (methanol) and lye (caustic soda)," he said.

Goodman makes about 300 gallons (1,135 litres) of biodiesel a day on a farm in Maryland, where his helper Matt Geiger twice a week brings huge jerricans of the precious "yellow grease" he collects from restaurants in the towns of Olney and College Park. The homemade fuel keeps 15 school buses running in the area, Goodman said.

Most biodiesel fans have organized into co-operatives that make biofuel from soy oil instead of used cooking oil. The groups have been growing over the past few years, but they still represent a minuscule part of the US energy sector.

According to the National Biodiesel Board, biodiesel production last year tripled over 2004 to 280 million litres last year. This year, it is expected to double to 560 million litres.

In comparison, US consumption of traditional diesel fuel extracted from crude oil stands at 227 billion litres per year.

But biodiesel still has country music legend Willie Nelson singing its praises. The 73-year-old songwriter has launched his own brand of the fuel, dubbed "BioWillie," and strongly believes that biodiesel is the way to go.

Nelson and Oscar winning actor Morgan Freeman are on the board of a company called Earth Biofuels which has signed up Roberts to help promote the cooking oil fuel.

"The idea is to do something useful towards eliminating America's dependence on foreign oil. Consumers can now ensure that their fuel money stays in America rather than going overseas," Nelson wrote on his website.

### 91M tons crude oil produced in 1st half

July 20 (chinadaily/agencies)--China produced 91.664 million tons of crude oil, a rise of 2.1 percent from the corresponding period of last year, said sources with the China Petroleum and Chemical Industry Association (CPCIA) Thursday.

The output of refined oil products is 84.822 million tons, up 5.6 percent year on year, the CPCIA told Xinhua.

According to the statistics of the General Administration of Customs, China's net imports of crude oil was 70.33 million tons in the first six months, up 17.6 percent year on year and that of refined oil products, 12.03 million tons with a growth of 48.3 percent.

The apparent consumption of crude oil, representing the sum of net imports and output, is 161.994 million tons, 8.2 percent up from the same period of last year, and that of refined oil products, 96.852 million tons, up 19.2 percent.

Both the output and apparent consumption of crude oil and refined oil products hit record high in the first six months.

China's oil imports have "stabilized" and may decline within three years on government measures to conserve fuel, Bloomberg quoted

the head of the nation's third-biggest energy company as saying.

Shipments will stay near 130 million metric tons a year, or about 2.6 million barrels a day, before dropping, helping global prices ease in the "long term," Cnooc Ltd. Chairman Fu Chengyu said in a July 18 interview. International Energy Agency projections, in contrast, suggest China's imports will rise to 4.4 million barrels a day in 2009 from 3.3 million this year.

"The policies on energy saving will take three to five years to implement," Fu said in Beijing. "I feel confident that energy imports won't be as much as we thought before."

Achieving the government's targets will involve shutting factories that waste energy, setting efficiency limits for cars and increasing fuel prices to curb use.

China's oil consumption will rise 6.1 percent to 7 million barrels a day this year, of which 3.7 million will come from domestic fields, the Paris-based IEA, an adviser to 26 oil-consuming nations, said July 12 in its Monthly Oil Market Report. By 2009, demand will jump to 8.2 million barrels a day, of which 3.8 million will be locally produced, the IEA said in its Medium-Term Oil Market Report the same day.

China aims to cut the amount of energy used to produce each unit of GDP by 20 percent in five years, and 4 percent this year, Premier Wen Jiabao said in March. The government is seeking to reduce the nation's reliance on oil imports by promoting power sources such as nuclear, solar and hydropower.

Commenting on the oil market, Fu said "geopolitical issues" in regions such as the Middle East may boost prices beyond recent records. Asked whether oil could reach \$100, Fu said, "Maybe."

Prices beyond \$100 aren't warranted "just on demand and supply," as there haven't been any shortages, he said. The "consensus" on the long-term price is "maybe \$50 to \$60, or even lower."

Last year, China's oil imports rose to a record 126.8 million tons, according to the Beijing-based Customs General Administration of China. The cost of oil shipments soared 54 percent to \$33 billion in the first half.

## Climate Change and Air Pollution

### Beijing wipes out polluting factories for the Olympics

July 27 (chinadaily)--The Beijing Coking-Chemical Plant is the latest pollution-causing factory to move from Beijing's urban district in accordance with a municipal government order aimed at creating a cleaner environment for the 2008 Olympic games.

A major polluter as well as gas provider in the Chinese capital, the factory supplied 710,000 families and 5,000 hotels with gas in the late 1990s. At one time the number of its registered workers surpassed 9,000.

Operations at the factory never ceased during its 47-year history, continuing to function even during the catastrophic 1976 Tangshan Earthquake, which caused at least 240,000 deaths, 180 kilometers east of Beijing.

But production came to an end on July 15, as a factory manager pressed a button, dumping out the last load of coke. Emotional workers took pictures, but the factory's huge chimneys will no longer send out smoke from Beijing's southeast end.

#### A Political Star

When Qin Wansuo was hired to the factory in 1974, the first training he received was political. He was told who their clients were - the Great Hall of the People, foreign embassies, big hotels and the Zhongnanhai, where the Chinese central government and Chairman Mao Zedong were seated.

With a list of high-priority customers like this, Qin said he formed the opinion that his factory's

normal operation was not just a business but also a political mission.

Since the late 1970s, coal gas was widely promoted inside the city and the amount of private gas users sharply increased. The factory's political influence shifted, but did not fade. .

It was a set practice for many years for chief Beijing municipality leaders to visit the factory during the Spring Festival holidays, the most widely celebrated in China. Gas supply problems are one of the few factors that could easily ruin the holiday atmosphere, and the leaders didn't want that to happen.

Later, the factory's role in the city could be best summed up by Qin's metaphor: "When my factory sneezes, the municipality government gets a cold."

#### Lifelong ties to the environment

For hundreds of years, coal was the primary fuel used for cooking and heating in Beijing. Yellowish-gray smoke enveloped the city around mealtimes. When the Beijing Coking-Chemistry Plant was established in 1959, it was given an historical mission to help people switch from burning lumps of coal to using gas to cook their food and heat their homes.

The dominance of coal and gas energy culminated in 1980s and 90's, after the number of private users in Beijing fanned out in the 1970s. When the plant was established, it only provided gas to some places where the central government was located. The number of private gas consumers increased significantly in the 1970s, and peaked in the 1990s.

At that time, the factory had nearly 10,000 employees working to provide a stable gas supply to city residents and big plants. A small urban railway station was used to transport about 200 daily loads of coal and coke for the factory.

When natural gas was discovered to be a cleaner fuel with rich reserves in North China, coal gas was doomed to fade out.

The natural gas pipeline was first connected to Beijing in 1985, but small-scale natural gas use didn't immediately shake the major role coal gas played in the city.

It wasn't until October of 1997, when natural gas, pumped 860 kilometers away from huge reserves in northern Shaanxi Province finally reached Beijing, that mass commercial supply became possible.

The city's coal gas supply system was gradually replaced, and people became less tolerant of the pollution caused by the factory.

Two of the factory's six furnaces were shut down as of 2002. The last batch of 6,000 coal gas users switched to natural gas on July 4 this year. The rest of the coal gas stored in the factory's reserves will go to a nearby thermo-power generation plant.

The improvement in Beijing's environment from the relocation of the factory will be apparent - cutting down the burning of 2.96 million tons of coal and 4.3 billion cubic meters of exhaust emissions.

"The factory was set up to meet environmental needs, and production was halted for the environment too," a factory official said

#### Relocation of Urban Factories

The Beijing municipal government has decided to move all factories away from the urban area and those that create pollution from city before 2008. Many of the city's big factories will be involved in the massive relocation plans.

The biggest name on the list is the Capital Iron and Steel Group, the city's biggest state-owned enterprise that once employed one-tenth of Beijing's production workers.

Located 17 kilometers west of Tian'anmen Square, the Group has launched a 50-billion-yuan relocation project to the Caifeidian port, an island town 300 kilometers east of Beijing. The deadline for the relocation plan is 2010, but all production in Beijing will be stopped during the month-long Olympics if the relocation is not finished before the Games.

Another big chemical factory to be moved is Beijing Huaer Company Ltd., which was purchased by China Petrol last month for 3.3 billion Yuan.

#### Climate change time bomb is ticking fast

July 29 (chinadaily)--China needs to take urgent measures, roughly within the coming 10 to 20 years, to address climate change and prevent the worst of its effects.

Erik Assadourian, research associate with the international environment think tank Worldwatch Institute told China Daily that as the country is in a rapid growth stage, it could prioritize growth in certain sectors over others such as solar energy, wind energy, biofuels and ecologically friendly manufacturing.

It is imperative that the Chinese public and the government focus on these sectors if they expect to live in a future not ravaged by coastal flooding, droughts and extreme weather events, according to Assadourian, director of "Vital Signs 2006-2007" published this month by Worldwatch.

In almost every field of this year's "Vital Signs" - an annual report on the world's eco-health - China takes leading place, which is not surprising.

The world's gross world product (GWP) - the sum of all finished goods and services produced globally - jumped 4.6 per cent in 2005 to another record high of US\$59.6 trillion (in 2005 dollars).

China produced 14 per cent of the world's GWP in 2005 and despite the high proportion, last year it saw the index grow at a rapid 7.8 per cent year-on-year.

With such huge growth each year and 1.3 billion people, nearly all changes regarding China are significant.

Granted, per capita usage in China is small compared to industrial countries, but its huge population makes its trends significant, be it food, natural resources or energy.

As far as specific changes in major trends go, there is one good example: In 2004, China became one of the largest producers of hydro-electricity, making up 11.7 per cent of the world total (just 0.3 per cent less than Canada), a significant increase over the past decade. By 2005, it should take the place as the largest producer.

China is absolutely a leading global consumer and producer. While many see this as a reflection of China's growing prosperity, it must also be seen as a warning sign.

In 2004, China was already the largest user of coal. China and India together now use 42 per cent of the world's coal - the fossil fuel with the greatest impact on human health and the climate.

Just as the US must lead the way in reducing oil usage (since the country uses one quarter of the world's oil each year), China must work hard to reduce coal usage if it is to expect a stable climate in the future. With such a large portion of China's population living on the coasts, it is essential that China takes an aggressive stance on addressing climate change.

Changing weather patterns are also believed to be responsible for decreasing rainfall in the Gobi Desert of Northwest China that has helped it expand by 26,000 square kilometres a year and forced tens of millions of Chinese farmers to retreat.

But China has been making some important moves towards a sustainable development path. The country has put forward the world's most ambitious plans for nuclear reactors, expecting to add 31 reactors by 2020 to nine operating ones and two under construction. This will mean opening two new large reactors each year.

In the field of wind power, China may be the country with the biggest potential. Already it has added nearly 500 megawatts, for a total approaching 1,270 megawatts. With the new Renewable Energy Law going into force since this January, Chinese and international companies are poised to increase wind turbine output.

The country has the wind resources and manufacturing skills to become the world leader, but only if its renewable energy policies prove effective.

In 2005, the global production of photovoltaic (PV) cells - which generate electricity directly from sunlight - increased 45 per cent to nearly 1,730 megawatts, six times the level in 2000.

Although Japan, Germany and the United States lead the world in PV production, China accounted for almost 42 per cent of the total production by the rest of the world. In late 2005, Shanghai launched an initiative to install PV systems on 100,000 of the city's 6 million rooftops.

If China does not implement a sustainable economic system now, and instead builds a Western-style infrastructure (complete with suburbs, many kilometres of unnecessary roads and millions of cars), it will be too late.

Special interests will grow along with this infrastructure, and as we are seeing in the West, make it nearly impossible to redirect society towards a more rational development model.

### Heatwave in Europe, US, but is it climate change?

July 24 (chinadaily)--As large parts of Europe and North America once again bake in an exceptionally hot summer, many people are asking what has now become a perennial question: "Is this global warming?"

The heat has already killed at least 21 people in France, including a 15-month-old baby, prompting fears of a repeat of the European heat wave in 2003 in which at least 15,000 people in France and 20,000 in Italy died.

Large parts of the United States and Canada have also seen record high temperatures this month. "We are cooking," said US meteorologist Dennis Feltgen of the National Weather Service.

Many scientists reckon the globe is warming and will continue to do so due to the "greenhouse effect" caused by emissions from fossil fuels trapping heat in the atmosphere. But they say we should not read too much into a single hot spell.

"As ever, you cannot say any one weather event is caused by global warming," said Asher Timms of Britain's Tyndall Centre for Climate Change Research. "But globally, it seems that there's quite a shift in our weather patterns."

Sceptics of the global warming theory, which predicts droughts and floods this century unless greenhouse gas emissions are curbed, say the media play up hot summer days for dramatic effect.

Bill O'Keefe, a board member of Washington think tank the George C. Marshall Institute and a consultant to the oil industry, said the record heat could be seen as part of a natural cycle of highs and lows.

Trend clear

"I don't think there is any climatologist or meteorologist that would say you could draw a conclusion about any given year. There have been hotter periods in the past and we will have them in the future," O'Keefe said.

"If this persisted for a very long time than you might be able to conclude that human activities had an impact."

But many scientists say a warming trend is already clear.

U.S. space agency NASA says 2005 was the warmest globally in more than a century and that the preceding three years were also the warmest since the 1890s.

The US National Climatic Data Centre said the first half of 2006 were the warmest six months since records began in 1895.

"NASA's averages for the world and what we produce here are far more informative than looking at the extremes in Britain, France or Italy like the summer of 2003," said Philip Jones, climate research professor at Britain's East Anglia University.

"It's the global averages that count."

"Ten of the last 12 years were the warmest since 1850. The global temperature (since then) rose 0.7 C and most climate models suggest it's going to continue to warm by 2 to 5 C this century," Jones said.

The sceptics say any warming over the last century can be explained by the fact that the planet was coming out of a cold period, known as the "Little Ice Age" and not due to a massive build-up of greenhouse gases after the Industrial Revolution.

Jones said the rate of temperate change in the 20th century was at least three times that in other centuries evidence that this was more than a natural cycle.

And although a couple of hot summers do not prove climate change, if global warming is happening, heat waves are inevitable. "Obviously, if you continue to warm the climate you get more extremes at the end of the spectrum," said Jones.

More sea, less snow

There is other evidence, aside from temperature figures, to suggest the Earth is warming, particularly a rise in sea levels, believed to be due to water expanding as it warms and additional melting mountain glaciers adding to sea volumes.

Globally, sea levels are rising by around 1.5 millimetres per year and have risen some 20 centimetres since the late 1800s, Jones said.

Less snow on mountains, changes in precipitation patterns and an increase in the intensity of hurricanes, possibly due to warmer seas, are also potential evidence of global warming.

Because of the many uncertainties in climate change science, a United Nations body was established in 1988 to collate and check the data and its findings are a major influence on politicians deciding what to do on climate change.

The Intergovernmental Panel on Climate Change will publish its fourth report next year, updating a 2001 paper which said temperatures were set to rise by 1.4 to 5.8 C from 1990 to 2100 with potentially devastating consequences.

### **Britain and California to co-work on global warming**

July 31 (AP)--WASHINGTON - Britain and California are preparing to sidestep the Bush administration and fight global warming together by creating a joint market for greenhouse gases

British Prime Minister Tony Blair and California Governor Arnold Schwarzenegger plan to lay the groundwork for a new trans-Atlantic market in carbon dioxide emissions, The Associated Press has learned. Such a move could help California cut carbon dioxide and other heat-trapping gases scientists blame for warming the planet. President George W. Bush has rejected the idea of ordering such cuts.

Blair and Schwarzenegger were expected to announce their collaboration Monday afternoon in Los Angeles, according to documents provided by British government officials on condition of anonymity because the announcement was forthcoming.

The aim is to fix a price on carbon pollution, an unwanted byproduct of burning fossil fuels like coal, oil and gasoline. The idea is to set overall caps for carbon and reward businesses that find a profitable way to minimize their carbon emissions, thereby encouraging new, greener technologies.

Monday's meeting was being hosted by Steve Howard, CEO of The Climate Group, and Lord John Browne, chairman of British Petroleum. British and American business leaders planned to use it to also discuss other ways of accelerating use of low-carbon technologies.

The world's only mandatory carbon trading program is in Europe. Created in conjunction with the Kyoto Protocol, a 1997 international treaty that took effect last year, it caps the amount of carbon dioxide that can be emitted from power plants and factories in more than two dozen countries.

Companies can trade rights to pollute directly with each other or through exchanges located around Europe as long as the cap is met. Canada, one of more than 160 nations that signed Kyoto, plans a similar program.

Although the United States is one of the few industrialized nations that hasn't signed the treaty, some eastern U.S. states are developing a regional cap-and-trade program. And some U.S. companies have voluntarily agreed to cap their carbon pollution as part of a new Chicago-based market.

A main target of the agreement between Britain and California is the carbon from cars, trucks and other modes of transportation. Transportation accounts for an estimated 41 percent of California's greenhouse gas emissions and 28 percent of Britain's.

Schwarzenegger has called on California to cut its greenhouse gas emissions to 2000 levels by 2010. California was the 12th largest source of greenhouse gases in the world last year, bigger than most nations.

Blair has called on Britain to reduce carbon emissions to 60 percent of its 1990 levels by 2050. Britain also has been looking at imposing individual limits on carbon pollution. People who accumulate unused carbon allowances \_ for example, by driving less, or switching to less polluting vehicles \_ could sell them to people who exceed their allowances \_ for example by driving more.

Bush has resisted Blair's efforts to make carbon reduction a top international priority. After taking office, Bush reversed a 2000 campaign pledge to regulate carbon dioxide emissions, then withdrew U.S. support from the Kyoto treaty requiring industrialized nations to cut their greenhouse gases to below 1990 levels.

The United States is responsible for a quarter of the world's global warming pollution. Bush administration officials argue that requiring cuts in greenhouse gases would cost the U.S. economy 5 million jobs. Instead, the administration has poured billions of dollars into research aimed at slowing the growth of most greenhouse gases while advocating a global cut on one of them, methane.

### Fears over impact of global warming on China's rivers

July 8 (AFP)--Experts have voiced fears that a build-up of greenhouse gases from global warming could significantly reduce the amount of rain ending up in China's rivers, a vital source of water for the country.

If greenhouse gases continue to rise as they have been, rain and snowfall in China's Huaihe, Liaohe and Haihe river regions could decline by 30 percent by 2040, Xinhua news agency quoted a leading Chinese meteorologist saying.

Areas that feed China's second largest river, the Yellow River, could also be affected, said Dong Wenjie, director general of the National Climate Center with the China Meteorological Administration.

The phenomenon is caused by an unnatural concentration of green house gases, including carbon dioxide, methane, and nitrous oxide -- formed by energy generation from coal-fired power plants and deforestation activities -- as well as vehicle emissions.

China relies on coal for about 70 percent of its energy needs.

If China can effectively control greenhouse gas emissions, precipitation will increase in its major

river valleys over the next 60 years, Dong said at a forum sponsored by "Sino-Italian Green Week", which concluded Friday.

China has a relatively high emission volume of carbon dioxide per unit of gross domestic production.

In 2002, China's carbon dioxide emission totaled 4.08 billion tons, ranking second in the world after the United States.

Experts said it was imperative for China to enhance energy efficiency and further develop low-carbon energy resources.

But many experts say China will rely on coal for most of its energy for years to come as it is the most readily available and cheapest source of energy.

China made "effective control of greenhouse gases" one of the goals of its 11th Five Year Plan, a blueprint for the booming economic giant's development until 2010.

The country is investing in alternative sources of energy, including hydropower plants, and promoting low-emission vehicles.

### First target consumption to improve environment

July 15 (chinadaily)--China is committed to improving its environment, of that there is no doubt. There is simply no alternative, as Mother Earth has already proved in certain regions with numerous disasters, great and small.

But some officials, mainly local ones, still sacrifice the environment out of their eagerness to achieve economic growth.

So far, our line of thinking in this area has been concentrated on the production side. The government takes pain in reducing pollution and improving energy and resource efficiency through legislation, environmental impact assessment for major projects, strict law enforcement and hefty penalties.

These the government can do easily, and they can quantitatively measure results. Judging from past records, these results can be spectacular too.

A case in point regards soil erosion. Before, we lost valuable farmland to the tune of over 2,000 square kilometres a year, but during the last decade we actually gained fertile land from desert areas and increased forestry coverage through years of persistent tree planting. This is a feat very few countries, both rich and poor, have achieved.

But this is still not good enough for China.

Our environment is in such a pitiful state that over 60 per cent of the country is environmentally fragile. Some small achievements simply cannot help reverse the general trend.

We have so far attained a per capita GDP of just US\$1,000, and still have to continue developing our economy at a rapid pace. This will lead to further environment degradation and resources depletion.

If we want to achieve a peaceful rise, we will have to allay international fears that China will soon literally fight for her insatiable demand for natural resources worldwide.

Modern capitalist development is characterized by mass production fuelled by mass consumption. The problem lies in consumption being misguided by corporations for profit maximization.

Take the US for example, where households have on average more than three cars, and every individual purchases seven pairs of shoes a year. Americans on the whole consume 6.5 times the global average of resources.

Our population is four times that of the US. Multiply their ecological footprint by four and you will begin to grasp the reality that this is a consumption pattern to which China simply cannot aspire.

Even for the US, this consumption leads to a private and public debt burden of over US\$145,000 per head, negative savings and trillions of US dollars of fiscal and foreign exchange deficits.

Currently this country has to suck in US\$2 billion per day from all over the world to satisfy its spending habits. This is clearly unsustainable, even for the US.

Moreover, the US is totally unable to get rid of its expensive addiction, whilst other countries do not seriously want them to do so. If they should halve that number of consumer goods, many factories will be in great trouble.

However, in China's cities we are consuming more like the Americans now. We consume a lot more protein in our diet, leading to a general rise in obesity among the population, and a subsequent increase in diabetes, hypertension and coronary diseases. Even the US government is beginning to promote the "food pyramid", urging its citizens to eat more grains, fruits and vegetables in their meals.

We Chinese have never developed an eating habit like this before, and we should quit it right now before it is too late. Reverting to our traditional eating habit will conserve countless farmland and reduce a lot of imports.

We also emulate the Americans in promoting private car ownership. This is of course good news to the automotive industry, but the result is terrible traffic jams in the cities, air pollution, and rising oil imports even in the face of skyrocketing prices.

Hong Kong does not have the car industry interest to serve. Its car ownership is among the lowest in comparable income level cities, and it has very few traffic jams. People can travel to most destinations in the territory by rail and other public transport, and the suburbs are linked with bicycle lanes for commuting.

If Hong Kong, which is known for its fabulous efficiency, can get along with this mode of transportation, so can all cities in the country.

And what is the point of promoting low-density houses for the newly rich in our cities when land is such a scarce resource? We can save a lot of fuel and electricity if we design our high-rise apartments with better insulation, better airflow and more sunlight.

The rooftops can be covered with grass and scrubs to create more greenery, together with solar panels and mini-windmills to further save electricity bills.

We should take measures to cut down cigarette and alcohol consumption in our country. Together with a more traditional low protein diet and regular exercise, we can better support our aged population, which will soon be bigger than the overall population of the US.

Learning from the lessons of developed countries, we should switch over to this new and healthier mode of consumption early. Because once we get addicted to the current mode, it will be extremely painful to shake it off.

Developing along this alternative consumption route, our industries will have to develop in a different direction in order to serve the new demand.

Our country can then continue to grow in a more self-reliant manner and without further damage to the environment. We will be offering products and services that are quite unique, and are better geared to serving the needs of the world's future.

The market for these environmentally friendly products and services will go beyond the imagination once they are marketed to the mainstream population and are no longer niche products. By then, China's peaceful rise will be utterly credible, and it will be wholeheartedly welcomed by the world.

The author is a member of the Chinese People's Political Consultative Conference National Committee from Hong Kong.