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General Energy Issues

Long way to go on energy conservation

July 29 (China Daily) -- Although China is moving forward on the road to energy conservation, it still has a long journey ahead if it is to hit its five-year goal of reducing energy consumption and waste by 20 percent, statistics and expert views reveal.

Figures from the first four months of 2008 released this month from the National Bureau of Statistics, National Development and Reform Commission (NDRC) and National Energy Administration paint a gloomy picture of the national and local energy conservation efforts last year.

In 2007 China consumed 1.16 tons of coal equivalent when it produced 10,000 yuan of GDP, a 3.66 percent year-on-year decrease, far below the target annual level of 8 percent set in 2005 as the base year for the country's 11th Five-Year Plan (2006-2010).

"The figures can prove China's efforts to improve energy efficiency, but it's not enough," says Zhuang Jian, senior economist with the Asian Development Bank in Beijing. "China still has a hard time hitting the goal because the economic structure, as well as energy consumption pattern, is difficult to change in a short term."

Authorities also released 2007 energy consumption by provinces.

Beijing took the lead in developing a sustainable mode, as it burned the least amount of coal equivalent, 0.714 tons for 10,000 yuan of GDP last year, a 6.04 percent year-on-year reduction. However, Hainan, with its economy buoyed by tourism, sat at the bottom of the list. It reported a slight 0.8 percent cut.

Central authorities are now holding local officials accountable for their efforts to increase energy efficiency and environmental protection when compared to the goals set by the government.

The central government asked local officials to lower energy consumption per unit of GDP by 4 percent annually until 2010.

"The assessment index should be flexible, not just focusing on the 4 percent annual goal," Zhuang says.

For example, although Hainan only reduced its energy intensity by 0.8 percent, its energy consumption per 10,000 yuan of GDP was less than 0.9 tons of coal equivalent, a very low level compared with other provinces.

"Each province has a special industrial structure, which decides how much potential it has to improve in energy efficiency," Zhuang says.

Many experts and governmental officials pin more hope on 2008, the third year of the five-year plan, and expect China to reach the average level of energy conservation - a 12 percent reduction from the plan's base year of 2005.

The figures also show the country's industries are not on track to shift to an energy efficient sustainable mode.

The productivity of high energy-consuming industries increased overall compared to the same period last year.

Auto manufacturing increased 21 percent, construction of power plants was up 9 percent, crude steel production rose by 21 percent and cement production also jumped 14 percent.

Because of the growing industrial demands, power generation also saw a growth of nearly 16 percent, mostly from coal-burning power plants.

According to NDRC figures, increased investment in high energy consuming industries also saw a rise in pollution emissions in the first four months.

Dai Yande, deputy director of the Energy Research Institute under the NDRC, says: "Rising investment in heavy industries leads to more heavy industries and will make it more difficult for China to lower its energy consumption with industrial restructuring."

The country has also failed to get on track to replace outdated polluting plants because many Local governments are still pursuing short-term economic interests partly because new environment and energy accountability system has yet to be finalized, Dai said.

The accountability system will be added to the development goals and standards that officials are expected to meet or exceed in order to keep their jobs.

For China, which is undergoing rapid industrialization, hitting these goals will also inevitably cause many economic pains, experts said.

For instance, the country will close small inefficient polluting power plants with a combined generation capacity of 13 million kilowatts this year and replace them with larger, more energy-efficient plants

That involves not only a huge investment but also the loss of many jobs.

Though the six-month statistics on GDP and energy consumption are not available yet, policymakers say these preliminary figures point to a worrying trend that calls for a greater sense of urgency.

Worse, as domestic demands have pushed large industries to grow, an increase in heavy exports is stalling the country's progress towards sustainable development.

From January to April, due to rocketing international steel prices, China exported more than 21 million tons of steel, a 132 percent rise over the same period last year. Zinc exports exceeded 160,000 tons, up year-on-year by 198 percent.

Experts say tougher government measures are needed to correct the trend.

They say new taxes, such as fuel taxes and natural resources taxes need to be levied to make better use of natural resources and to reduce energy consumption.

Sino-Russian collaboration in energy sector planned

July 10 (China Daily) -- China and Russia are preparing a joint action plan for 2009-2012 and will speed up negotiations on the energy sector, following talks by the leaders of the two countries on the sidelines of the Group of Eight (G8) summit yesterday.

President Hu Jintao said China has put forward a draft of the joint action plan. He said he hoped the two countries will carry out cross-border infrastructure construction projects and expand bilateral trade in the field of machinery and electronic products.

Hu said the two sides have appointed their respective energy negotiators, adding that such discussion will be included in regular meetings between the prime ministers of the two countries.

Russian president Dmitry Medvedev expressed the hope that the joint action document would be ready by next month when the two leaders meet again to discuss it during the upcoming Shanghai Cooperation Organization (SCO) summit in Tajikistan, according to Russian reports.

Hu also thanked the Russian government and its people again for their assistance and support following the May 12 quake in Sichuan province.

"All these embody the profound friendship President Medvedev and the Russian people bear toward the Chinese people," he told his Russian counterpart.

At the invitation of Medvedev, 1,000 primary and middle school students from quake-hit areas are going to Russia this month as part of relocations efforts.

Japanese relations

President Hu yesterday also met Japanese Prime Minister Yasuo Fukuda, with both leaders exchanging views on boosting the strategic and mutually beneficial relations between the two countries.

During their talks, Fukuda said Japan will seek Chinese assistance in resolving the abduction issue with the Democratic People's Republic of Korea, as Pyongyang has not started investigating the issue and difficulties of lifting economic sanctions remain.

The two sides also discussed regional and global issues.

Fukuda recently showed his support for the Beijing Olympics, officially announcing that he will attend the opening ceremony of the Games next month.

The meetings of the two leaders come amid a steady warming of bilateral relations over the past two years. Through a series of high-profile talks, both sides have agreed to further promote the ties to a new stage.

In May, President Hu paid a historic state visit to Japan, during which the two sides signed a joint statement on the all-round promotion of strategic and mutually beneficial relations between the two nations.

The statement formulates guiding principles for the long-term development of bilateral relations and maps out future prospects for China-Japan ties.

Similarly, the Japanese Maritime Self-Defense Force (SDF) destroyer Sazanami visited the southern naval port of Zhanjiang last month. It was the first such visit of a Japanese navy ship to China after World War II.

Canadian ties

President Hu and Canadian Prime Minister Stephen Harper yesterday exchanged views on bilateral relations and issues of common concern.

The Canadian prime minister had said in April that he will not attend the Beijing Olympics, but reiterated that Ottawa will send a high-level delegation to the opening ceremony in Beijing.

A recent comment in the Toronto Star criticized Harper for his ideology-based policy toward China and urged him to put aside his biases and act in Canada's long-term interests.

In contrast to former Canadian prime minister Jean Chrétien, who personally headed large-scale trade delegations to China, Harper has not made enough effort to improve the bilateral relationship and has not visited China since he assumed office in 2006, the comment said.

Top govt official defends nation's biofuel thrust

July 9 (China Daily) -- China's support to biofuel development has not caused the global food price surge, a Chinese official reiterated

yesterday while world leaders gathered in Japan to find solutions to rising energy and food prices.

It's the United States that should take the blame for its massive production of fuels from corn and other grains that has pushed up their global prices, said Zeng Xiao'an, a deputy department director of the Ministry of Finance.

"Our scale (of fuel produced from corn) is very small and we have already stopped all new projects," Zeng said in an online chat at the central government's portal.

China's corn-based ethanol production capacity is only 1.3 million tons. But in the US, it's 19.8 million tons. The US plans to produce 110 million tons of biofuel by 2020.

"The US' biofuel strategy has greatly affected the global grain supply," said Zeng.

World food prices started to rise in 2002 and have accelerated in the past few years, especially since last August. International grain prices soared 42 percent in 2007 alone. To solve the crisis, the World Bank has said developed countries should reduce the amount of grain being used for fuel and increase grain aid to regions worst hit by the food crisis.

China is 95 percent self-sufficient in grain and all the corn used to make ethanol in four factories is raised by its own farmers.

With such a large population, China will not develop biofuel at the cost of grain security, said Zeng, adding the government will strictly implement its policy of not approving new biofuel projects involving grains.

But Zeng said the central government will offer financial support for development of biofuel from agricultural waste, such as wheat straw, corn stalks, animal feces and non-grain farm produce.

Every year, China produces about 700 million tons of agricultural straw and 3 billion tons of animal waste. It also has about 100 million hectares unsuitable for growing grain but which can be used to cultivate plants for fuel production.

The country has long been encouraging farmers to dig biogas pools. Generally, Chinese farmers recycle crop straws, grass, husk and animal

dung and use it as biogas. This produces organic and environmentally friendly fertilizer.

Some 26 million households in the country's rural areas were using methane for cooking and heating by the end of last year. Another 5 million households will do so this year.

The country produced 750,000 tons of bio-ethanol last year and is scheduled to boost output to 5 million tons by 2010, according to the Ministry of Agriculture.

High energy-consuming sectors grow slower in H1

July 25 (Xinhua) -- China's high energy-consuming industries experienced a growth slowdown in the first half, sources with the Ministry of Industry and Information Technology said on Friday.

The six high energy-consuming sectors in China -- electric power, nonferrous metals, chemicals, iron and steel, building materials, and petroleum -- recorded a growth of 14.5 percent in output, 5.6 percentage points lower than the growth rate for the same period last year.

The government has adopted a policy of curbing the development of high energy-consuming and high-polluting sectors, in order to help improve environmental protection and achieve a sustainable economic growth.

Despite the declining growth rate, investment in some of the six sectors still increased at an accelerated speed. Over the past half year, investment in nonmetals mining rose 46.7 percent and dressing and nonferrous metals smelting 39.2 percent.

Some experts attributed the investment rise to the local governments seeking more investment to boost their GDP growth.

The central government set a goal to reduce the energy intensity index (measured by energy consumption per 10,000 yuan of GDP) by 20 percent and major pollutants discharges by 10 percent for the 2006-2010 period. The energy intensity index went down 3.27 percent last year.

Despite efforts to adjust the country's industrial structure so as to reduce the weight of energy-consuming sectors and to attain a "greener" economy, heavy industry still grew faster at 17.3 percent than light industry at 13.9 percent from January to May, according to the National Development and Reform Commission.

Energy consumption per unit of GDP continues to fall

July 15 (Xinhua) -- China's energy consumption per unit of gross domestic product (GDP) value continued to fall last year, as a result of the country's efforts to make energy use more efficient and cut pollution, official figures show.

The energy consumption for every 10,000 yuan (\$1,429) of China's GDP stood at 1.16 tonnes of coal equivalent in 2007, down 3.66 percent from the year 2006, the National Bureau of Statistics, National Development and Reform Commission (NDRC) and National Energy Administration under the NDRC said in a statement Monday.

The indicator for 2006 was 1.204 tonnes of coal equivalent, 1.79 percent lower than that in 2005.

In 2005, China's energy consumption per unit of GDP was just more than three times the level of the United States, more than five times that of Germany and eight times that of Japan.

Beijing saw the energy use per unit of GDP shrink 6.04 percent last year, the biggest drop among all provincial jurisdictions, as the Chinese capital strove for energy efficiency and clean environment ahead of the Olympics.

Southern China's Hainan Province had the smallest reduction of 0.8 percent in the indicator.

China has set a target of reducing energy consumption per unit of GDP by 20 percent and major pollutant emission by 10 percent by the year 2010 from the levels in 2005.

As part of its efforts to achieve those goals, the country planned to close small, energy-intensive coal-fired power units with a total capacity of 50 million kilowatts between 2006 and 2010.

The aggregate capacity of closed small thermal units since 2005 had reached 25.87 million

kilowatts, 51.74 percent of the targeted reduction, the National Energy Administration said Monday.

Most of the closed were in southern China's Guangdong Province, the eastern provinces of Jiangsu, Anhui and Shandong and central province of Henan.

The closure was estimated to save 32.6 million tonnes of coal and cut carbon dioxide emission by more than 550,000 tonnes each year.

Small units with a capacity below 100,000 kw burnt 400 million tonnes of coal in 2007, more than 30 percent of the total coal consumption by China's power plants. They produced 5.4 million tonnes of carbon dioxide in 2006, nearly 40 percent of the total emissions from the country's power sector.

Venues designed to minimize emissions, save energy

July 17 (China Daily) -- Clean energy and power saving technologies have been used in constructing Beijing's Olympic venues to ensure a green Games, experts and organizers said.

Ding Jianming, deputy chief engineer of the Beijing 2008 Olympic Project Construction Headquarters Office, said: "A solar power system will heat water for the daily needs of all athletes and officials in the Olympic Village during the Games."

A 6,000 sq m solar power water heating system installed in the rooftop garden at the Olympic Village, will provide hot water to the apartments and auxiliary facilities, saving 5 million kWh of electricity every year, the Games' organizers said.

Located in northern Beijing, the Olympic Village will use renewable energy such as solar power and reclaimed water to limit the amount of pollution emissions, they said.

The village will be home to more than 16,000 athletes and sports officials during the Olympics, they said.

During the Games, the two energy sources will provide the village with 7.89 million kWh of power, equivalent to the amount produced by burning 3,077 tons of coal. These renewable energy sources will reduce carbon dioxide emissions by 8,000 tons, they said.

The village is just one of 37 "competition" venues - 31 in Beijing and six in co-host cities - and 14 "non-competition" that will be used during the Games, the organizers said.

Forty-two gold medals will be won at the National Aquatics Center - a blue bubble-wrapped structure, also known as the Water Cube - which will host the swimming, diving and synchronized swimming events, they said.

The 17,000-seat venue was designed with water saving in mind, the organizers said.

The building's outer surface and roof can collect 10,000 tons of rainwater, 70,000 tons of clean water and 60,000 tons of swimming pool water a year, and the venue as a whole will save 140,000 tons of recycled water a year, the organizers said, without elaborating.

Zhao Zhixiong, general manager of the Water Cube, said: "Our goal is to build the Water Cube into a swimming stadium that can save water to the greatest extent."

Last week, Yang Weiguang deputy director of the Beijing municipal science and technology commission, said: "Beijing's Olympic venues have widely used energy-saving technologies, environmentally friendly new materials, clean and renewable energy."

The National Stadium's steel structure, Peking University Gymnasium's siphon drainage system, Qingdao Olympic Sailing Center's seawater source heat pump technology and Shenyang Wulihe Stadium's reclaimed water treatment system - are all examples, he said.

BP calls for energy efficiency in China

July 9 (China Daily) -- Energy efficiency and conservation have never been more important than now for China, which has a growing need for energy and faces rising oil prices on the

international market, said BP Group Vice-President Gary Dirks yesterday.

"Rising international energy prices make the issue of sustainable energy consumption and sustainable growth all the more important this year. Sustainable energy consumption and economic growth are global issues that need global solutions," Dirks said at the launch of BP Statistical Review of World Energy 2008 in Beijing.

"At company level, I see the need for new forms of partnership and collaboration, including in commercializing and developing new technologies for clean energy," he said.

China has already made progress in its efforts to enhance energy efficiency, he said. In 2007, China liberalized coal prices and raised caps on natural gas and oil prices. Last month, the government increased oil and electricity prices. These are significant developments in the right direction, Dirks said, adding that economical consumption and energy conservation are better achieved when end consumers are faced with rising energy prices.

Oil prices have been rising for more than six years, the longest period of rising prices, according to BP data.

The Review says world economic growth was strong last year despite the financial market turmoil that began in August, and this continued to support global energy consumption. And although growth in primary energy consumption slowed in 2007 compared with 2006, at 2.4 percent it was still above the 10-year average for the fifth consecutive year.

In 2007, global oil consumption grew by 1.1 percent, or 1 million barrels per day (bpd), slightly below the 10-year average. Consumption in the oil exporting regions of the Middle East, South and Central America and Africa accounted for two-thirds of the world's growth.

The Asia-Pacific region grew by 2.3 percent, even though growth in China and Japan was below average, with strong growth in a number of emerging economies. OECD (Organization for Economic Cooperation and Development) consumption fell by 0.9 percent, or nearly 400,000 bpd.

Global oil production fell by 0.2 percent, or 130,000 bpd, the first decline since 2002. OPEC production dropped by 350,000 bpd due to the cumulative impact of production cuts implemented in November 2006 and February 2007. Increased output in Angola and Iraq, and growing supply of condensates/NGLs (natural gas liquids), partially offset larger cuts in other OPEC countries.

Proven oil reserves were essentially flat in 2007 - at 1.24 trillion barrels - and are sufficient to meet current production for more than 41 years.

Natural gas

World natural gas consumption grew by above-average 3.1 percent in 2007, although only North America, Asia-Pacific and Africa recorded above-average regional growth.

The US accounted for nearly half of the world's gas consumption growth, driven by an extremely cold winter and strong demand for gas in power generation. Chinese consumption grew by 19.9 percent and accounted for the second largest increment to global gas consumption.

Coal was the fastest growing fuel in the world for the fourth consecutive year. Global consumption rose 4.5 percent. Consumption growth was widespread, with growth in every region except the Middle East exceeding the 10-year average.

Chinese coal consumption rose 7.9 percent, the weakest growth since 2002, but more than two-thirds of global growth. Indian consumption rose 6.6 percent and OECD consumption rose 1.3 percent, both above average.

Nuclear power output fell by 2 percent, the steepest decline on record. However, more than 90 percent of this decline was accounted for by Germany and Japan, which saw the world's largest nuclear power plant closed following an earthquake. Hydroelectric generation increased 1.7 percent, slightly below the 10-year average.

Renewable energy

Renewable energy remains a small share of total global energy use, but most renewable sources experienced rapid growth in 2007. Ethanol output rose by 27.8 percent. Global capacity for wind and solar electricity generation grew broadly in line with historical averages of 28.5 percent and 37 percent, respectively.

Automobile and Transportation

Chery powering ahead in eco-friendly tech

July 1 (China Daily) -- Chery Automobile Co has been in the headlines since the end of last year when it entered into agreements with Quantum LLC, Daimler Chrysler and Fiat.

The now-familiar brand has long been a pioneer, but the partnerships led some in the industry to think it would follow in the footsteps of some domestic brands that faded into history after forming joint ventures.

"We don't want to make cars behind closed doors," said Yin Tongyao, Chery president. "Chery never refuses joint ventures but we have a purpose in running them. We must assume the majority control."

Yin said Chery will go more eco-friendly, more energy efficient and be much safer.

The auto industry started to draw foreign partner in 1983, often trading market shares for technology. The period was known for "cars from the world on the Chinese market".

Two decades later domestic auto companies are seeking a bigger say in joint operations. Chinese partners of foreign-invested ventures are heading down the roads they increasingly select while Chery and other home producers are exploring overseas markets.

Analysts note that Chery began a new era in joint ventures when it expanded overseas with its own products and brand. Chery's approach follows time-tested strategies of other auto powers.

This year, Chery is expected to market 6,000 gas-powered vehicles in the Middle East powered by components of Landi Renzo.

The automaker is embracing the world's best technology to generate its own brand. With Landi Renzo it has found harmony with a partner of similar far-sightedness.

"Landi Renzo has a complete product chain that powers our endeavor to spread in China," said Wu Wei, general manager of Beijing Landi Renzo Autogas System Co Ltd. "But we will not limit ourselves to integrating our designs in

made-in-China products. We are pushing to spread all our products and above all, integrate our eco-friendly concepts into social values."

Some experts note a smart enterprise joins society instead of operating apart, a concept Landi Renzo has already put into action.

Ten years of vision have brought the company a convergence of location and people in the world's largest market.

Landi Renzo plans to transfer its environmental and new energy technologies to the country, winning a larger market.

As China evolves to emphasize new energy and a sound ecology, it will need more partners from the global village like Landi Renzo.

General Motors drives into its second century

July 4 (China Daily) --- General Motors Corp (GM) is preparing for its 100-year anniversary on September 16. As it prepares to enter its second century, the world's largest automaker surveyed issues that will likely shape global transportation in the 21st century.

GM sees a future dominated by two major trends. The first is the rapidly growing role and importance of emerging markets, led by China. The second is the need to develop robust alternatives to the automotive industry's traditional and almost complete reliance on oil to power vehicles.

Last year was the automotive industry's sixth consecutive year of record global sales. Nearly 71 million cars and trucks were sold, which represents an increase of about 24 percent in just six years - all attributable to China and other emerging markets. The growth and importance of emerging markets will only increase going forward, driven by demand among a greater number of consumers for personal transportation.

It is clear that oil alone cannot meet rising automotive energy requirements. As well, concerns about global climate change and worries about energy availability, cost and

security are driving the need for an unparalleled transition in transportation fuel.

Energy diversity

To solve the problem of the automobile's 96 percent dependence on petroleum, GM has adopted a strategy focused on energy diversity.

A key element of this strategy is developing advanced technologies and vehicles that range from gasoline-friendly to entirely gas-free. GM today offers more fuel-efficient models, more hybrids and more E85 ethanol-capable vehicles than any other automaker.

GM believes that ethanol is the automotive fuel with the most potential to reduce oil consumption right now because it is renewable, reduces greenhouse gases, decreases dependence on imported oil and the technology is available today. The increased use of ethanol could slash oil demand considerably.

GM is equally convinced that as soon as the end of the next decade a large number of vehicles will be electrically driven, energized by electricity and ultimately clean-burning hydrogen. GM believes these two energy carriers are the right answer for several reasons: they can be used interchangeably, they can be produced from diverse energy pathways, they can be generated from renewable feedstock and they have the potential to displace a substantial amount of petroleum at an affordable price.

Just as importantly, electricity, hydrogen and electric drive are key enablers for the full electrification of the motor vehicle. They will revolutionize the DNA of the automobile, making it fundamentally better. As a sign that the future is near, GM has already begun demonstrating this new technology.

This is not technology that is confined to one market or one market segment, however. GM is tailoring these and other solutions to the countries in which it does business. In addition, GM is sharing its achievements and unmatched expertise with its friends and partners worldwide, including those in China.

In April, GM, Shanghai Automotive Industry Corp (SAIC) and Tsinghua University opened the China Automotive Energy Research Center in Beijing. The goal is to develop an automotive energy strategy tailored especially for China that

will help move the nation away from its reliance on petroleum-based fuel.

GM is in the process of establishing the Center for Advanced Science and Research in Shanghai. This organization will carry out key research projects in alternative fuels, advanced alternative energy propulsion systems, and manufacturing and supplier energy efficiency.

New products in China

In conjunction with its flagship Shanghai General Motors joint venture, which launched its pioneering "Drive to Green" strategy in January, GM has announced ambitious plans to introduce in China a range of advanced vehicles and engines.

GM's first hybrid built in China, the Buick LaCrosse Eco-Hybrid, is due to come off the line in the coming weeks. GM is also committed to making China one of the first markets for the Chevrolet Volt plug-in electric vehicle, which is scheduled to go into production in the United States in 2010.

It is impossible to imagine what GM or the global automotive industry will look like in 100 years, any more than GM founder Billy Durant could have imagined the company's vehicles running on anything other than gasoline back in 1908.

One thing is certain. There will still be roads, but the vehicles on those roads will be greater works of art, power, fun and access than anything that exists today. General Motors is venturing into that frontier with an ambitious agenda. As it embarks on its second century, its plans are built on a clear understanding of the past and present, and a solid determination to maintain its role as an industry leader globally and in China.

GM, Ford: China H1 sales up steadily

July 9 (Xinhua) -- Car makers General Motors (GM) and Ford said on Tuesday their sales in China grew steadily during the first half of 2008, a stimulus for the companies that have seen demand slump in their home market.

GM, the largest US automaker, said it sold 590,126 vehicles in China in the first six months, up 12.7 percent year-on-year.

Kevin E. Wale, president of GM China, said the company's multi-brand strategy was taking effect. New models of brands such as Chevrolet, Buick, Cadillac and Wuling all received positive feedback from Chinese consumers.

Ford said its sales rose 21 percent to 172,411 units, of which sales of passenger cars produced by Changan Ford Mazda Automobile Co Ltd, a joint venture of Chongqing Changan Automobile Co Ltd, Ford Motor Company and Mazda Motor Company, rose 25 percent to 116,903 units.

Wale said the industry should put priority on developing more energy-efficient, environment-friendly vehicles. Under the pressure of rising oil prices, GM's new growth point would be developing vehicles with new energy-saving technologies, including hybrid technology. US auto sales plunged in June to a 15-year low, but a month-end clearance sale helped GM retain its No 1 spot.

In effort to cushion the impact of record gas prices and sagging home sales, foreign auto makers are competing aggressively in China, where sales are expanding at double-digit rates and major US, European and Asian producers have set up factories.

Also Tuesday, Japan's Honda Motor (China) Investment Co Ltd said its sales in China rose 21.3 percent year-on-year to 186,991 vehicles during the first half of 2008.

The growth rate exceeded that in its home market and other overseas markets. In the first six months, Honda's sales shrank in Japan and grew merely 4.1 percent in the United States -- its biggest overseas market.

Despite the mounting production cost and rising oil prices, the Chinese auto market would continue booming, Zhu Linjie, an official with the Honda China company, told Xinhua by phone.

He added Honda was expecting 20 percent annual sales growth this year in China -- its fastest growing market worldwide.

Auto prices continue to fall as makers lack confidence

July 30(China Daily) -- Though manufacturer suggested retail price has barely changed, the top 10 best-selling models of the first half have seen a big drop in actual prices, according to a survey of the Beijing Asian Games Village Automobile Exchange, which is regarded as the barometer of the Chinese auto market.

"Sales policies vary everyday, and the prices are floating. Preferential margins are directly proportional to the stockpile," said an insider.

Dealers in Beijing are not alone, as counterparts in other provinces send the same message of price reduction.

Zhang Chao, general manager of Beijing Zhonglian Auto Exchange, said that dealers lowered the prices as an immediate response to the increasing market competition and the rising cost of vehicle ownership for consumers.

Their price reduction must have been acquiesced from the manufacturers.

"Market competition draws the prices down, but many manufacturers are reluctant to make it clear," said Zhang.

In the face of the market variation, reducing the sales prices stealthily, without changing the recommended prices, is a way for dealers to reap the actual benefits and save face for the manufacturers.

"It's true that some of the manufacturers and dealers are not confident of the situation," said Zhang.

The expectation of a surplus has also hurt their confidence.

"Dealers who did not achieve sales target of the first half are facing a high stock level," said Su Hui, general manager of the Beijing Asian Games Village Automobile Exchange.

"Estimating that sales volume may also be affected by the Olympic Games in August and September, as many dealers devote more efforts on sales promotion in the hopes of releasing the possible pressure at the end of the year," Su said.

Statistics from the beginning of 2008 imply that vehicle prices this year may soar instead of continuously falling as they have in the past few years, and many automakers urged the industry to raise prices to offset the fast rising cost, but few echoed.

An industry analyst thinks that the price increase of raw materials has limited influence on passenger vehicles. Whereas, the upsurge of labor cost is the main factor that pushes up the production cost, and the uptrend has ceased.

"Vehicle prices will still go down, in the long run," said the analyst. The reasonable profit margin for an automaker should be 3 to 5 percent, much lower than the current profit level of most manufacturers. Price cutting will continue when confronting the fierce competition.

The price of domestically-made vehicles in China in May decreased 2.78 percent compared to the same period a year earlier, according to figures revealed by the price monitoring center under the National Development and Reform Commission.

The survey, covering 36 big- and medium-scale cities nationwide, showed the price of the average domestically-made passenger car and commercial vehicle fell 2.26 percent and 3.82 percent, respectively, year on year.

Luxury car sales lead the market

July 18 (China Daily) -- Tang Lei has been busy during the first half of the year, but he is able to find time to enjoy his achievements as the leading salesman in his company, New Beijing Star Automobile Service Co Ltd, a Mercedes-Benz dealer.

"I sold almost 60 Benz vehicles in the first six months, 10 units more than the first half of last year," said the 27-year-old salesman. "I look forward to a better sales in the latter half and expect an annual record in my five-year sales career."

Last week, three German luxury vehicle brands all announced record sales in the Chinese market, outpacing the growth rate of the overall passenger car market of 17.07 percent.

Analysts believe that the growth is fueled by the rumor that the government is set to increase vehicle purchase tax, especially for large-sized vehicles in a bid to address environmental issues.

However, as it is unclear when a tax adjustment would be implemented, analysts said that it is likely that growth will slow for the latter half of the year.

Mercedes-Benz saw its vehicle sales hit 18,000 units for both locally made and imported cars in China, paving the way in the luxury car market with growth of 52 percent year-on-year.

The same day, FAW-Volkswagen Audi sales division in Changchun reported a sales growth of 23 percent compared with the same period of last year, the best half-year sales in its 20-year history in China, with a sales volume of 59,902 units.

Their rival BMW said it had sold a total of 30,325 cars under BMW and Mini brands in China between January and June - a growth of 28 percent compared with the same period of last year.

"Whenever the related policy changes, China's auto market replies with a blazing shock," said independent auto analyst Zhong Shi.

"Being afraid of the rising cost as well as the price after the central government increases the vehicle purchase tax, the dealers will buy vehicles more to deal with the coming pressure," he said.

"And consumers' awareness of buying products ahead of a price hike also boosts sales," said Hui Yumei, an automobile analyst from Sinotrust, a leading domestic auto research firm.

"Undoubtedly the launch of new products is also a factor in driving sales," she added.

Mercedes-Benz has launched more than five new models in China in the first half.

Fewer cars push Games to green lane

June 25 (Xinhua) -- Beijing Sunday inched a step closer to realizing a green Olympics by

enforcing a series of measures to ease traffic jams and reduce pollution.

Vehicles with even and odd plates will hit the roads only on alternate days, which effectively means just half of the capital's 3.29 million automobiles can run on any given day.

With more than 1,000 new cars being registered every day, Beijing is fast becoming one of the world's most congested cities. But the traffic restrictions will hopefully make another 4 million people use public transport.

There were fewer vehicles on the roads Sunday and people found it easier to drive after the even-and-odd license plate rule was enforced. It will be in force till Sept 20, when the Paralympic Games ends.

On a normal day, a drive from Liuliqiao Bridge, on southwest Third Ring Road, to Beitucheng, on the northeast, would take more than an hour. But Sunday morning it took only half an hour.

Beijing residents are eager to use public transport if it's fast and comfortable. For instance, Lin Fengjiang, whose vehicle has an odd license plate number, took a bus because of the restrictions. "It's okay with me. Buses are running very fast today. They're more time-efficient."

Yao Zhenping, assistant to the general manager of the Beijing Public Transport Holdings Group, said more than 95 percent of the buses ran on schedule Sunday, which is impossible on normal days of traffic congestions.

The city authorities said the restrictions, along with an earlier ban on the use of vehicles that had failed to meet emission standards, could keep up to 2 million vehicles off the roads.

Pollution has been one of the biggest problems for the Olympics organizers, who are banking on the traffic and industrial restrictions to ensure blue skies for the athletes and other visitors, especially because car emissions are the major source of air pollution in Beijing.

He Kebin, a professor at the department of environmental science and engineering of Tsinghua University, said Beijing had met almost all major indicators of air quality for the Olympics, except that for the inhalable particulate.

"Vehicles account for more than 50 percent of inhalable particulate, and traffic restrictions are the most effective way to deal with it," He said.

Environmentalists estimate that the even-and-odd number plate rule and the ban on vehicles that failed to meet emission standards would cut emissions by 63 percent.

The city authorities have warned drivers not to flout the even-and-odd plate rule because hi-tech surveillance cameras can easily detect their numbers, and once caught they would be fined heavily.

More than 10,000 "smart devices", including cameras and electronic detectors have been installed on major roads and dozens of designated Olympic routes.

Taxi drivers, who lose valuable time and money because of traffic jams, have welcomed the traffic restrictions. "See, the traffic is already so much better, it's much easier to drive today," said a smiling Han Jianguo from behind the wheel of his cab.

But ordinary Beijingers who will have to cope with the already-crowded public transport were not all so thrilled. Some richer ones, however, have bought a second car.

"The rules will certainly help (ease congestion). But it will create some real difficulties for ordinary people," said a city resident, Liu Shuo.

A series of regulations to check emission from factories in and around Beijing, too, went into effect Sunday. More than 150 high-polluting cement and other factories will be closed for two months.

Tianjin, a port city east of Beijing and host to the Games' soccer qualifying matches, has ordered 40 factories to close down temporarily.

And the industrial base of Tangshan, northeast of Beijing, will shut down nearly 300 factories this month.

Beijing has spent about 120 billion yuan (\$17.58 billion) to clean the environment.

Hydrogen fuel-cell sedans to offer zero-emission service at venues

July 7 (Xinhua) -- SHANGHAI -- A total of 20 hydrogen fuel-cell cars were expected to provide zero-emission transportation services for the Beijing Olympic Games after their manufacturer delivered 15 such sedans here on Sunday.

These hydrogen fuel-cell cars were manufactured by Shanghai Volkswagen Automotive Company, a Sino-German joint venture automaker.

Earlier, Shanghai Volkswagen had already delivered five such cars to Beijing after these vehicles undergone strict tests in safety, reliability and durability.

The engines for these vehicles were jointly designed and developed by prestigious Tongji University, Shanghai Automobile Industry Corporation (Group) and Shanghai Fuel Cell Vehicle Powerstrain Co., Ltd.

The 20 sedans would be used to provide transportation services for some VIPs, officials and media people. They were a major part of a nearly-500-strong "Green motorcade" which would provide zero-emission services at key venues of the Games.

These cars were able to run at a maximum speed of nearly 150 kilometers per hour and they could finish a distance of more than 300 kilometers with one-time hydrogen charge, according to Tongji University.

The university said several members of the research and development team would provide technical support at the site to ensure smooth operation of these vehicles during the Olympic Games.

Oil and gas

Oil prices threaten globalization

July 9 (China Daily) -- When Thomas Friedman published his bestseller *The World Is Flat* in 2005, it portrayed a new world of global markets

where historical, regional and geographical divisions are becoming increasingly irrelevant.

It was a very different world. US productivity still seemed relatively solid and global growth was strong.

The price of oil did climb from \$10 to \$95 between 1999 and 2007, but this did not have an adverse impact on global growth. Things changed this year. When the price of oil soared to \$140, many saw the increases as a harbinger of a new energy shock.

On the eve of the US Independence Day, crude oil rose to a record above \$145 a barrel. Goldman Sachs, Wall Street's famed investment bank, expects oil to hit \$200 in the next six to 24 months.

Western analysts often attribute price hikes to the rapidly-rising demand from China and India. Yet, the struggle for energy resources has been a reality since the early 1970s.

US critics argue that the price of the dollar-denominated crude oil has been driven up in the aftermath of the War in Iraq and by the low dollar.

Politics aside, prices are ultimately driven by a classic imbalance in supply and demand. As demand is escalating and energy alternatives remain few and costly, the upward trend of oil prices has come to stay.

Soaring energy prices mean soaring transport costs, which have a potential to cancel much of the global integration the world has witnessed since the world wars.

During the past 120 years, the world has witnessed three waves of global economic integration. The first wave of global integration (1870-1910s) was triggered by falling transport costs and reductions in tariff barriers.

This wave ended with three decades of devastating political nationalism and protectionism. Extreme political nationalism and economic protectionism triggered two devastating world wars. By 1950s, exports as a share of world income were down to about 5

percent. In the process, 80 years of globalization was cancelled out.

In the postwar era, Washington was the architect of the second wave of globalization, which was driven by the new international multilateral institutions. For developed economies, this wave was spectacular. It was only with the third wave of globalization around 1980 that a large group of developing countries, led by China, broke into global markets.

In 1980 only 25 percent of the exports of developing countries were manufactures; in the late 1990s, the corresponding figure was 80 percent.

By the 1990s, the leading emerging economies took off in service exports, as well. The shift was driven by liberalization of trade and investment and continuing technological progress in transport (containerization, air freight) and communications (digitization, the Internet).

The new "flat world" made possible greater specialization and higher productivity. In the past, developed countries traded primarily with each other. Now industries have grown more concentrated geographically (think of Detroit's car industry or Hollywood's movie industry), but also more dispersed (the great car factories in China, Bollywood in India).

But there is a caveat. Each wave of globalization has been driven by falling transport costs and reductions in tariff barriers. Conversely, when transport costs have been rising, or tariff barriers have been increasing, or both, progress in globalization has been overturned.

Given the soaring prices, oil has the potential for such a reversal.

Since the postwar era, multilateral trade negotiations - particularly reduction in tariffs and non-tariff barriers - have supported dramatic surges in global trade. But, along with the new protectionist winds in the advanced economies, the greatest immediate challenge to global trade and investment may be the triple-digit oil prices.

When oil prices were still around \$20 per barrel in the year 2000, transport costs amounted to an

average tariff rate of 3 percent. At \$150 per barrel, the rate is 11 percent, which was the average level of the 1970s. If the price hits \$200, it would reflect the kind of average tariff rates that prevailed in the mid-1960s.

These estimates by CIBC World Markets indicate that a 10 percent increase in trip distance translates into a 4.5 percent increase in transport costs. In 2000, it cost \$3,000 to ship a standard 20-foot container from Shanghai to the east coast in the US, including inland costs. At \$200 per barrel, the transport costs could soar to \$15,000.

Until recently, the great manufacturing advantage of China and India was driven by the substantial wage differential between the labor in the US and in these large emerging economies. Due to energy prices and the freight costs, the differential is diminishing faster than anticipated.

Today wage differentials must be assessed within reasonable shipping distance to the market. Further, a substantial proportion of Chinese exports to the US (furniture, apparel, footwear, metal manufacturing, industrial machinery, etc) represent goods with low value to freight ratios. Due to the soaring energy prices and freight costs, China's steel exports to the US have been falling.

The impact of high oil prices has been felt across oil-intensive industries in the US. Airlines are moving toward shakeouts; the \$4-a-gallon gas has forced the first fall in gas consumption since the Gulf War of 1990-91; and last June, the sales of new cars and trucks plunged to their lowest level in more than 10-15 years.

A sustained trend would reinforce the kind of trade diversion that was seen in the 1970s, which made trade more regional. American importers would substitute Latin America for East Asia, Japan would import more from China; China's Guangdong trade engine would be challenged; Mexico's maquiladora plants could thrive again, and so on.

During the past 30 years, global economic integration has supported extraordinary global growth. The take-off of large emerging economies, particularly China, has had a great

positive impact on the world economy. If the cost of moving things and people continues to soar, globalization will erode and regionalization will gain.

Written by *Dan Steinbock, research director of International Business at the India, China and America Institute*

Efficient oil use vital for sustainable growth

July 3 (China Daily) -- From June 20, the prices for gasoline and diesel were raised by 1,000 yuan (\$144.9) per ton and the price for aviation kerosene was up by 1,500 yuan (\$217.4) per ton. Compared with the huge losses of oil refiners, this rise is quite limited. Further hikes would be necessary to balance their losses.

It has been urged repeatedly to raise the refined oil product price in the country, but the authorities did not act accordingly till now and the rise is not as dramatic as expected. They have good reasons for doing so: raising prices of refined oil products is like pouring oil over the already-strong flame of inflation in the country.

As the consumer price index (CPI), the foremost indicator of inflationary pressure, has kept growing dramatically in nearly one year, it is a primary concern of policymakers to curb inflation. Maintaining the price of refined oil products is an important aspect in easing this pressure.

As a matter of fact, the price hike should have been decided long before June 20. The earlier and the more the price is lifted, the more benefits would be achieved for the Chinese economy and the domestic capital market. The negative influences would be strengthened as the price rise is delayed.

Researchers said before the latest price rise the central government should give 330 billion yuan as subsidies to oil refiners every year to ensure the supply of refined oil products on the market. This amount is based on an international oil price of \$130 per barrel. If the international oil price keeps going up, the losses of the refiners from refining imported crude oil would be

boosted and the subsidies might be raised accordingly.

When the price of refined oil products are raised, the refiners could see less deficits and the government could reduce subsidy to refiners and use the saved money for other public services. Such a prospect is definitely constructive to economic soundness.

According to customs statistics, China imported 145.18 million tons of crude oil in 2006 and imported 159.28 million tons in 2007. The figure for 2008 is estimated to be 170 million tons. If the international crude oil price keeps climbing like it has done in the first six months of the year, the huge oil import alone would cost China a big fortune.

Why is China so thirsty for oil? An important element is the dramatic growth of private cars. Between 1996 and 2006, the private cars rose from 2.9 million to 23.3 million and the net growth in 2006 was 4.85 million.

So many private cars have become a source of inflexible demand for gasoline.

Therefore, it is natural for people to wonder why so many people decided to own a car. Admittedly, some have better income to support their consumption and some find the automobiles are less expensive thanks to the development of the automobile manufacturing industry.

But more importantly, it is because many consumers do not consider the cost of using automobiles, because that cost could be negligible because of the low gasoline price.

To promote sustainable economic development, it is necessary to adjust the domestic oil consumption through price change. The individual demand to refined oil products not only weighs significantly upon the balance between the demand and supply within the Chinese market, but also influences the international oil price.

On the day China released its oil price hike, the crude oil future traded on the New York Mercantile Exchange dropped more than \$4 per

barrel. After that, the price keeps climbing again. One of the reasons for the latest rise is that the Chinese oil price was not raised to a reasonable level, and the international market expects more rises in the future.

If China curbs the growth in its oil demand, the speculation in oil price could be checked and the country could also save a lot of money. If the oil price dropped by \$50 to about \$90 per barrel, where it was in early 2008, China could save nearly \$100 billion, which could be used to subsidize the life of common people or the businesses.

The oil price hike would not intensify the inflation because the energy price takes a minor portion in the CPI basket. The food price, which takes about 35 percent in the CPI figures, is going to drop, so there is more room for the decision-makers to raise the oil price.

If the oil price could be raised to the ideal point decided by the demand and supply on the market, it would help restore the investor confidence on the stock market. One of the biggest ills in the stock market is the price control by the government to the products of some listed companies. On the one hand, the government required oil refiners and electricity generators to ensure the supply of their products despite their financial losses. On the other hand, it maintained relatively strict control over the prices of these products.

It is against the law of the market economy that the listed companies keep operating on losses. So most investors would refuse putting their money in these companies or even quit the market. The continuous slump on the stock market stems from the destroyed confidence of investors. Such a slump hurts the market mood and poses challenges to the long-term development of the Chinese economy.

It would relieve many economic headaches if the refined oil is priced by the demand and supply in the market. And the influence of the price rise could be contained if the government takes necessary measures to safeguard it.

Oil use soars in H1 despite high world prices

July 24 (Xinhua) -- Soaring world prices don't seem to have crimped China's oil use, with statistics released on Thursday by an industry group indicating that first-half consumption of oil and refined oil products set records.

The China Petroleum and Chemical Industry Association (CPCIA) said that "apparent consumption" of refined products -- gasoline, diesel and kerosene -- rose 14.6 percent year-on-year to 106 million tonnes, while crude oil use rose 6.3 percent to 183.3 million tonnes.

"Apparent consumption" represents the sum of net imports and output, according to the group, and can be used as a proxy for real consumption excluding inventory.

Apparent consumption of gasoline rose 16.2 percent, that of diesel 14.7 percent and kerosene, 6.66 percent, according to the CPCIA.

The expanding economy, booming auto demand and reconstruction after the severe winter weather in southern China and the May 12 earthquake were the major causes of growing consumption in the first half, said Zhu Fang, a CPCIA researcher.

Gross domestic product expanded 10.4 percent in the first half, 1.8 percentage points below a year earlier but still a rapid pace.

The association's figures indicated that State price controls have led to unintended and even negative consequences.

For example, the State price ceilings caused an "abnormal" consumption rise through hoarding and smuggling abroad of refined products, said Zhu.

Below-cost prices did not restrain China's demand for oil but rather boosted it, said Niu Li, a researcher of the State Information Center, a government think tank.

According to the China Association of Automobile Manufacturers, sales of domestic cars increased 18.52 percent to 5.18 million units during the first six months, a high rate by global standards with markets in Europe, Japan

and the United States hit by rising gasoline prices.

Below-cost fuel prices led to a low utilization rate at refineries and the ensuing supply shortage in most parts of the country boosted China's imports of refined oil products.

According to the CPCIA, net imports of oil products (gasoline, diesel and kerosene) stood at 4.3 million tonnes in the first half, up sharply from 2.8 million tonnes a year earlier.

Gasoline imports surged more than 3,000 percent and those of diesel rose 1,143 percent. Net crude oil imports stood at 88.97 million tonnes, up 11.6 percent. The trade deficit from oil and oil products doubled from a year earlier to \$68.35 billion.

To reverse the trend, China raised benchmark gasoline and diesel oil retail prices by 1,000 yuan (\$146.6) per tonne on June 20, with the price of aviation kerosene up 1,500 yuan per tonne.

The price rise, although insufficient by international standards, has restrained demand and thus relieved the country's supply problems, to some extent, said Zhu.

Fuel fodder

July 21 (China Daily) -- In the Grimm Brothers' fairy tale, Rumpelstiltskin spins straw into gold. Tianguan Group in Henan province, one of China's major agricultural regions, is now transforming straw, and other plant wastes, into "green" gold - cellulosic ethanol, a next-generation biofuel produced from non-food sources.

At its cellulosic ethanol plant located in Nanyang, Henan province, straw collected from local farmers is piled in a storehouse. Three workers are busy sending them into a chopping machine, which links to the entire production line. The air smells like alcohol.

After smashing up and pre-processing, the straw goes through a series of procedures, including enzymatic treatment, fermentation, distilling and

evaporation, before finally turning into the golden liquid - ethanol.

"This is the first cellulosic ethanol production line with a commercial scale in China," says Zhang Xiaoyang, chairman of Tianguan group. "It can produce up to 5,000 tons of ethanol, and 10,000 tons of enzymes every year."

With a total investment of 61.5 million yuan, construction of this plant started in 2006. But Tianguan Group's first attempt at the cellulosic ethanol can be traced back to as early as 1997.

In 1997, Tianguan Group was formed based on the Nanyang Ethanol Producing Plant, a State-owned enterprise with a history of 58 years. Since then, Tianguan Group has developed the business of deep-processing ethanol in order to maximize its profit by producing acetic acid.

Tianguan Group has also worked together with universities and research institutions to develop the biofuels. In 2001, Tianguan Group became one of the four ethanol fuel producing plants approved by the government, as the country then had a large corn reserve of grains.

Using "aged grains", which are not edible, and other non-staple food materials, the plant now has an annual production of 500,000 tons of ethanol, according to Zhang.

But in June 2007, the State Council, or the cabinet, gave orders to stop expanding the production of grain-based ethanol and urged the existing ethanol makers to shift from food to non-food materials, given the rising prices of corn and the threat to food security.

In line with this new policy, Tianguan Group has switched 40 percent of its production to non-grain sources, such as sorghum and cassava, Zhang tells China Business Weekly.

"But the ultimate solution lies in cellulosic ethanol as using straw and other plantation waste is completely green," he says.

At Tianguan's cellulosic ethanol producing plant, 6.5 tons of straw is required to make each ton of ethanol.

Statistics from Ministry of Agriculture shows that every year crop planting produces about 600 million tons of straw and agricultural wastes in China, among which 300 million tons are used as fuels in rural areas, while the rest are simply incinerated. Similarly, 300 million tons of forestry wastes are not properly utilized, according to State Forestry Administration.

However, thanks to the difficulties in collecting and transporting the straws, the large amount of enzymes required in producing ethanol, as well as sewage treatment, the production cost of cellulosic ethanol still remains higher than grain-based ethanol.

"Taking all these factors into account, it is not realistic to build a large-scale plant of cellulosic ethanol. Rather, the cluster of relative small plants offers a solution for the industrialized operation," Zhang says.

"The annual production capacity of 10,000 tons will be an optimum economic scale for a plant," says Zhang, adding that Tianguan Group aims to set up a demonstration plant with such a scale by the end of this year.

This demonstration plant will then be used as a model for replicating 10 more plants in counties under Nanyang before 2010, and 100 more plants in surrounding areas of Nanyang by 2020. By then, the cost of cellulosic ethanol is expected to dive to about 5,000 yuan per ton, much lower than the current price for gasoline, says Zhang.

Zeng Xiao'an, an official with the Ministry of Finance (MOF), has said earlier that his ministry is considering supportive financial policies, such as subsidies and tax rebate, to promote cellulosic ethanol produced with straws.

Ethanol fuel is believed to help ease China's energy supply bottleneck. It is also believed to help cut carbon monoxide and carbon dioxide emissions, by around 30 percent and 10 percent respectively.

The country produced 750,000 tons of bio-ethanol last year and is scheduled to boost output to 5 million tons by 2010.

Currently ten provinces are using ethanol fuel including Jilin, Liaoning and Heilongjiang provinces in the northeast China, Hebei province in the north, Anhui, Shandong and Jiangsu provinces in the east, Henan and Hubei provinces in central China.

Govt might scrap crude oil import subsidies

July 4 (China Daily) -- The government may scrap the subsidies to State refiners on crude imports, following the decision to raise the price of refined oil products on June 20.

The subsidies could end from this month itself, Shanghai Securities News reported yesterday, citing sources from the country's largest refiner Sinopec.

According to an official with a Sinopec refinery, the company did not get the notice on subsidies for July. "We had been notified that if we did not get the notice by the end of June, it (the subsidies) would stand cancelled," he said in the report.

China's two leading oil companies, PetroChina and Sinopec, yesterday declined to comment on the report.

Facing soaring global crude price, China began to give monthly subsidies to oil firms on crude imports from April. Industry insiders said the subsidies are given in the form of value-added tax refund, under which the government refunds 75 percent of value-added taxes on crude imports.

Under this mechanism, in April Sinopec received around 7 billion yuan of subsidies.

On June 20, the government raised the price of gasoline and diesel by as much as 18 percent to narrow the gap between the high crude price on the international market and the low price of refined oil products at home.

Analysts said the price rise would help domestic oil companies tide over the difficulties. Their

refining businesses are seeing big losses due to the gap between high global crude price and low refined oil price. However, the price rise still cannot fully offset their losses as crude prices are surging even higher.

"Without the subsidies, the government may think of other measures to help domestic oil refiners," said Liu Gu, an analyst with Guotai Jun'an Securities in Shenzhen.

"As crude prices continue to surge, Chinese refiners are still facing difficulties. In our projection, Sinopec's profit will fall by over 60 percent in the second quarter," she said.

Sinopec may post a loss in the third quarter of this year if the country scraps the 75 percent refund on oil import taxes, Goldman Sachs Group Inc said in a report. The refiner said its first-quarter net profit fell 65.78 percent to 6.7 billion yuan because of rising costs and government control over fuel prices.

PetroChina, the nation's largest oil producer, said its first-quarter profit fell 31.5 percent as refining losses and windfall taxes cut its earnings from record crude prices.

Govt may wait until after Games to boost oil prices

July 29 (China Daily) -- The government may not consider a further boosting of refined oil prices and pricing deregulation until the end of the Olympics in spite of the recent global drop in oil prices.

Speaking to China Daily, experts and industry insiders said the government would not regard the fall in world oil prices as a "window opportunity" for action, following its oil price rise in June.

But they all agreed that China's leadership had achieved the consensus of putting the refined oil prices at the hand of the market.

"As far as I know, China's highest leadership has achieved the consensus of letting the market have final say on refined oil prices," said

Lin Boqiang, energy professor at Xiamen University. "But they may not do so before the end of the Olympics."

About 47 percent of China's oil demand has been currently satisfied by the international market. And China has linked its crude oil prices with the global market. But the government still controls refined oil amid a long-lasting debate over deregulation.

"But before the consensus turns into reality, the government will gradually boost the refined oil prices to bridge the gap with the international market," said Lin, director of the China center for energy economics research of the university.

Despite the Olympics factor, Lin said the government could frown on an oil price hike and pricing deregulation, as China's inflation is still high. This month, China's leadership has readjusted its economic agenda to maintain higher growth and put inflation under control despite expected rises in the consumer price index (which is predicted to increase 6.1 percent during the third quarter, down 1.7 percentage points from the second quarter).

"But as far I am concerned, the sooner the pricing reform is put into place, the better China's energy sector will perform," said Lin, adding that the government can save subsidies for the domestic crude oil refiners.

Then, the government can put more effort in subsidizing those vulnerable groups whose basic living has been affected by higher energy expenditure.

World oil prices turned higher in Asian trade yesterday, while the market remains faced with signs of slowing demand and rising supply. New York's main contract, light sweet crude for September delivery, rose 45 cents to \$123.71 a barrel.

The contract dropped \$2.23 to close at \$123.26 on the New York Mercantile Exchange on Friday. Prices have eased recently while concerns mount over demand for oil in the face of prolonged weakness in the US economy, the world's biggest energy consumer.

Oil prices broke through the \$100 level at the start of the year and then rose to a series of record highs on concerns over supply.

OPEC chief Chakib Khelil said Saturday that the price of oil could drop to between \$70 and \$80 a barrel if the US dollar strengthens and concerns over Iran are reduced.

To gradually deregulate refined oil prices, the National Development and Reform Commission last month announced the price of gasoline and diesel would go up by 1,000 yuan per ton from June 20, and the price of aviation kerosene would increase by 1,500 yuan per ton.

Before this round of price rises, the last time China adjusted gasoline and diesel prices was in November 2007, when the price of gasoline, diesel and aviation kerosene was raised by 500 yuan, or 9 percent, a ton. At that time the global crude price was around \$90 per barrel.

But the recent rise of refined oil price cannot fully offset domestic refiners' losses caused by surging crude prices. Analysts said the country's two leading oil companies, PetroChina and Sinopec, would continue to see losses in their refining business even after the price hike.

Facing the situation, Zhang Shuguang, an economist with the Chinese Academy of Social Sciences, urged the government to further raise the prices of refined oil following the hike and finally reach the standard of the global market.

"We should not subsidize the refiners and on the other hand, higher prices can promote saving culture," said Zhang, saying the higher fuel prices could help China realize its energy-saving goal of 20 percent between 2006 and 2010 per unit of GDP.

China largest refiner to cut 5% of workforce

July 26 (China Daily) -- China National Petroleum Corp (CNPC), the country's largest oil and gas producer, plans to cut 5 percent of its workforce over the next three years due to soaring labor costs.

CNPC General Manager Jiang Jiemin announced the planned job cuts at a recent annual meeting of company executives in Yan'an, Shaanxi province.

Analysts said the job cuts would be an effective way for CNPC to control its costs.

According to CNPC statistics, its staff totaled 1.67 million last year, so the move would result in a job cut of 80,000 people.

CNPC's job-cut plan came after it saw a large fall in earnings this year. The company's listed arm PetroChina's first-quarter profit fell 31.5 percent, as refining losses and windfall taxes cut its earnings from record crude prices.

CNPC earlier said it would cut office costs and spending on entertainment and travel by at least 10 percent this year.

It will not approve rental or purchase of luxury cars or construction of new buildings or hotels. It will also limit spending on parties and ceremonies and cut back on meetings and overseas trips.

According to China Petroleum and Chemical Industry Association (CPCIA), in the first half of the year, refineries under CNPC and Sinopec incurred 57.1 billion yuan of losses, 47.9 percent more than a year earlier.

The country's largest refiner Sinopec earlier said its net profit for the first half would decrease by over half, as the gap between high crude prices on the international market and the relatively low prices of refined oil products domestically has put its refining business deeply in the red.

The government in June raised the prices of gasoline and diesel by 1,000 yuan per ton. But analysts said the move could not put domestic refiners back in the black.

According to Liu Gu, an analyst with Guotai Jun'an Securities in Shenzhen, Sinopec would suffer 101 billion yuan in refining losses for the full year. As for PetroChina, which has a lower refining capacity than Sinopec, the loss would be around 80 billion yuan for the full year.

Last year, CNPC lost 36.2 billion yuan in its oil refining and processing businesses, according to company statistics.

In 2007, CNPC spent about 100 billion yuan on oil prospecting and another 32.2 billion yuan on oil refining projects in a bid to ensure domestic supplies.

Last year, CNPC processed 120 million tons of crude oil, an increase of around 6 million tons over the previous year.

Climate Change and Air Pollution

Beijing confident of clean air during Olympics

July 27 (Xinhua) -- BEIJING - Beijing is confident to meet its air quality commitment by maintaining clean air during the upcoming Olympics, the Olympics organizers said on Saturday.

Beijing has pledged three commitments in terms of the air quality, namely, monitoring everyday the four major pollutants of sulfur dioxide, carbon monoxide, carbon dioxide and inhalable particulates, striving for improving air quality throughout the year, and maintaining good air quality during Olympics, said Du Shaozhong, deputy director with the Beijing Municipal Environmental Protection Bureau.

So far, the city has succeeded in realizing all of its commitments, he added.

Beijing has established a complete monitoring system with 27 branches in the city. Meanwhile, the four major pollutants have been monitored everyday and the results were made public, Du said.

On improving air quality throughout the year, Du said the number of clean air days increased from only 100 in 1998 to 246 last year.

Beijing has taken more than 200 measures since 1998 to improve the city's air quality, most of which will remain in force after the Games.

Since winning the Olympic bid in 2001, Beijing has strived to reduce the four pollutants by 60.8 percent, 39.4 percent, 10.8 percent and 17.8 percent, respectively.

To ensuring clean air for Olympics, Beijing formulated a plan last October referring to 21 pollution control measures, including pre-Games environmental measures and temporary

emission reduction measures during the Games, Du said.

In the first half of 2008, the major pollutants have dropped by 20 percent and particulates reduced by 7 percent.

Beijing took 300,000 high-emission cars off its roads since early July. From July 20, private cars have been stopped on alternate days according to their odd or even number license plates in a bid to improve air quality and ease traffic congestion. The vehicle restrictions have resulted in 20 percent drop of major air pollutants, according to Du.

July has witnessed 22 "blue sky" days, or days with fairly good air quality, out of the first 25 days, Du said. The city had 145 "blue sky" days so far this year, 15 more than the same period last year.

Beijing is to conduct scientific, logical assessment of the air quality during the Olympics, said a confident Du, adding all the measures would definitely ensure satisfactory air quality during the Games.

UNEP official: Beijing makes progress in air pollution control

July 25 (Xinhua) -- NAIROBI - China is making progress in controlling air pollution in the capital city, Beijing, where the Olympic Games will begin next month, a senior official of the United Nations Environment Program (UNEP) told Xinhua on Friday.

"If you look at last month's data, Beijing met or exceeded the National Air Standards 24 times in June of this year. There has been progress," said Satinder Bindra, Director of Division of Communications and Public Information of the UN environment agency.

This comment comes as the latest data released by the Beijing Municipal Government on Friday said major air pollutants in the city, such as carbon monoxide, carbon dioxide and particle matter emitted by vehicles, have dropped by 20 percent in the city, thanks to the vehicle restrictions for the Olympics.

Twenty-two days out of the first 25 days in July reached the standard of "blue sky" days, or days with fairly good air quality, said Li Wei, deputy secretary general of the Municipal Government.

Beijing had 145 "blue sky" days this year, 15 more than the same period last year, according to the official.

"If you look at the progress that has been made since the United Nations Environment Program started working with the Organizing Committee of the Games, there has been progress -- subway systems, solar energy, wind energy. All these things have to be taken into account," Bindra said.

"Also, one has to remember that in early Olympics too, most notably Los Angeles in 1984, there were air quality concerns. So, these issues are not specifically to Beijing. One has to consider the progress that has been made," he added.

The Chinese government says it has spent more than US\$16 billion on environment-related projects in Beijing in the past ten years. Early this month, more measures were announced to control air pollution in the city, including taking nearly half of its 3.3 million vehicles off the roads and suspending work of more than 130 heavy-polluting factories.

Car emissions have been considered as one of the major sources of air pollution in Beijing, according to environmentalists.

Bindra said there has been "recognition everywhere, including in the international media, that measures were taken" to control air pollution in Beijing.

Time to invest more in protecting environment

June 25 (China Daily)-- Some people in developed countries have been criticizing China's environment pollution problem for quite a while and their views reflect a mix of glee over others' misfortune, derision and well-meant advice. Pollution used to be a typical internal issue of individual countries as it affects only people within a certain area, but China's pollution has become a major factor with its

growing impact on the country's international image as people's understanding of environmental issues deepens, foreign media coverage expands and as global warming worsens while concerns about the future of our planet grow.

Environmental deterioration in some parts of China has led to progressive loss of topsoil and fast desertification, which has alarmed some neighboring nations.

We have made tremendous efforts in recent years to upgrade our technology and many industries have improved their energy efficiency markedly, but in general our economy is still way behind member-states of the Organization of Economic Cooperation and Development in terms of energy efficiency.

Many countries are therefore worried that China would try to secure more energy resources around the world and inevitably come up against other nations with the same intent, giving rise to more geopolitical rivalries over strategic reserves.

Mounting carbon dioxide emission has been seen as a key contributor to global warming in recent years. Some people elsewhere are now pointing their fingers at China when they express their frustration over global warming.

We should take a serious look at China's environmental pollution through the lens of international scrutiny and try to fix whatever loopholes in our development strategy while building up an environmental protection brand for ourselves.

Needless to say environmental pollution is holding China's economic development back. Investigations by environmental protection agencies have revealed the country counted 511.8 billion yuan (\$74.8 billion) in economic losses to environmental pollution in 2004, setting that year's GDP back by 3.05 percent.

China's worsening environmental pollution is linked to the fact that the country is in the process of industrialization and to its involvement in globalization. In the process of globalization, enterprises of developed countries are moving their production toward the high end of the value chain while relocating the less-sophisticated operations to developing nations, especially China. This trend helps those

companies secure their profit while providing the developing countries with jobs and market.

As a result of this relocation China has taken over the production of many products that developed countries no longer want to make but which are still in demand around the world, such as heavy chemical and heavy industry products. Such production is energy-consuming and generates more pollutants than others. As such, China in a way has made undeniable contribution to and sacrifices for the developed countries' efforts to maintain their high living standard as well as the growing world economy.

Some cross-national corporations based in developed countries took note of this predicament and began investing in China's pollution treatment sector. Many developed countries have realized environmental protection products have great market potential in China and seizing a bigger share of this market should go a long way in securing future profitability for enterprises in the green trade.

European and especially the Nordic countries are the first to take hold of the notion. They have the advanced technology needed in this industry and their investment banks are very active in providing loans to environmental protection projects on favorable terms, helping European enterprises to become the frontrunners in China's green industry development.

Against this backdrop China has no reason not to be more proactive in advancing this cause. In the early years of the country's reform and opening-up drive, our government implemented a series of favorable policies for foreign investment in our industries and let in a large number of enterprises specializing in processing, which contributed a great deal to the development of our export-oriented processing industry.

Today, as we are faced with the problem of deteriorating eco-environment, boosting environmental protection should offer us another opportunity to expand related international cooperation and introduce advanced technology and equipment from developed countries to advance our environmental protection industry and ultimately improve our environment.

On the greenhouse gas emission front China has made a lot of efforts but remains the second largest greenhouse gas emitter in the world. If

China increases cooperation with developed countries in this area it will not only help improve the nation's eco-environment but reduce a major contributing factor to global warming.

From a geopolitical point of view, developed nations can help China raise energy efficiency, which should reduce pollutant discharge and the need for China to seek more energy resources on the international market. This in turn would make energy-related geopolitical conflicts that developed countries worry about less likely to happen. Developed countries helping China improve the environment makes a great win-win deal.

Some futurologists predicted before the turn of the century that environmental protection technology will be second only to information and communications technology as far as its future development prospect is concerned. By boosting the environmental protection industry China can turn pollution treatment into a profitable generator in its own right.

For example, garbage recycling has proved a viable way to turn waste into profit. And talking about garbage pollution, the most dangerous waste has to be radioactive materials, but France has made nuclear waste treatment a highly profitable industry. It formed a company specializing in processing radioactive waste produced by nuclear power plants and developed a set of advanced technology to treat and manage nuclear waste.

With this capability France has made profit from helping disadvantaged countries such as Germany and Japan process their nuclear waste. France's experience shows treating garbage would not add to pollution if you have the right means to do it the right way.

Using specialized processes to treat garbage and properly dispose of the untreatable materials should not necessarily increase pollution in our country. The Chinese economy is growing fast and needs enormous amount of raw materials. It would be a great contribution to the whole world if we pursue the full-circle economy by recycling wastes as much as possible.

When our environmental protection industry grows into a special comparative advantage and is even able to help other countries "digest" some of their wastes, the international

community would find China is not only supplying the world market with numerous inexpensive products but also solving the pollution caused by waste. That is what a responsible major power should be doing.

Written by *Ding Yifan*, researcher with the *Development Research Center of the State Council*

Environment ministry adds 2 departments

July 11 (Xinhua)-- The Ministry of Environmental Protection will set up two supervision and monitoring departments, as part of efforts to fight pollution, officials said yesterday.

The move is expected to pave the way for a system to cap and trade in emissions, such as sulfur dioxide (SO₂) pollution from industries, analysts have said.

With the latest beef-up, the State Council has allowed the ministry to recruit another 50 employees for the new departments, bringing its headcount to 300, the ministry's spokesman said.

The expansion signifies the ministry's added emphasis on controlling emissions nationwide and is in line with the country's target to cut 10 percent of major pollutants by 2010, he said.

Mao Shoulong, public policy professor of the Beijing-based Renmin University of China, said the expansion of the ministry's organizational structure and staff size suggests a strengthening of environmental governance, itself a result of the ministry's recent upgrade to a full-fledged ministry.

"The concept of total emissions control will allow the introduction of economic measurements to curb pollution, such as an emissions trading system," Mao said.

To that effect, the country is expected to establish a national cap-and-trade system for SO₂ emissions, to deal with pollution from the power industry.

These efforts reportedly need a more precise monitoring of environmental quality, including the calculation of total emissions.

The country's environment-related laws currently do not have specific stipulations on the control of total emissions. Consequently, some industrial enterprises end up becoming major polluters, the 21st Century Business Herald has reported.

There are now 2,900 environmental inspection agencies across all levels, comprising about 53,000 employees, official figures show.

"The legal framework for environmental protection is good," Mao said.

"For example, the country has many environmental laws and regulations.

"But enforcement, especially at local levels, needs to be strengthened."

Govt spotlights rural environment protection

July 26 (China Daily) -- The State Council has made improved water quality and pesticide pollution prevention the main focus of its environmental protection efforts in the country's vast rural areas over the next two years.

At its first national meeting on rural environmental protection on Thursday, the State Council set the target of a 10 percent rise in the treatment of sewage and consumer waste by 2010, and set a similar goal for the livestock and poultry waste utilization rate.

Achieving these targets will be an important step towards meeting the State Council's goal of "greatly improving" the rural environment by 2015.

Vice-Premier Li Keqiang, a member of the Standing Committee of Political Bureau of the Communist Party of China Central Committee, told the meeting that rural environmental protection is important as it is an issue of vital interest to rural residents, and is also important in terms of the country's sustainable development.

"It is a systematic project and needs to be implemented sequentially," Li stressed, noting the authorities' recent focus on water safety in rural areas and building more sewage treatment facilities.

He said the government should make greater efforts to tackle environmental problems that threaten public health and food safety.

China should balance its economic development with environmental protection in rural areas, he concluded.

The government should ensure good environmental conditions for a well-off society in the country, Li said.

In a related development, the Ministry of Agriculture yesterday announced it had recovered 23.97 million kg of bogus and substandard agriculture material so far this year.

As many as 111,500 bogus and substandard agricultural implements, worth around 200 million yuan (\$29.3 million), had been impounded in the first half of the year, Zhang Yuxiang, the ministry's chief economist, told a press conference in Beijing on Friday.

Beijing steel maker cuts output, pollution by 70% for Olympics

July 11 (Xinhua) -- BEIJING -- Beijing Shougang Group, one of China's leading steel makers and the capital's major polluter, is fulfilling its commitment to cut output and pollution by 70 percent for the Olympic Games, a company source said Friday.

The Beijing plants of the group have slashed monthly production to 200,000 tonnes in the third quarter, said the group's president Zhu Jimin. "This is about 29 percent of our normal output."

Through June, Shougang had extinguished the fires in three of its four blast furnaces at its Beijing plants.

These plants, which formerly produced 8.2 million tonnes of steel a year, would almost halve their output this year to 4.2 million tonnes, before all their Beijing production was stopped by 2010.

This year's output cut will put the group's Beijing plants in the red and slash the group's annual profits by at least 2 billion yuan (US\$285 million), Zhu said.

He said the losses would hopefully be offset by the group's new steel projects, notably its new plant in Caofeidian, an islet in the neighboring Hebei Province that will turn out 4.85 million tonnes of steel a year after its first phase starts operation in October. In two years, the new plant will be producing up to 10 million tonnes a year.

Meanwhile, Shougang's new cold rolling mill in Shunyi District in northeastern Beijing is producing 1.5 million tons a year.

"We'll also exploit our advantages in other sectors," Zhu said. These will include tourism, entertainment and other tertiary industries.

After the relocation, the old factory site in western Beijing will be developed into a complex for tourism and entertainment, cultural business, and commercial and residential compound with an expanded area of 856 hectares from 707 hectares.

"We'll be responsible for our shareholders and will protect their practical and long-term interests," Zhu said.

Shougang's efforts will hopefully pay off with pollution cuts, as it plans to reduce emission of sulfur dioxide, soot and dust by 49.18 percent, 50.32 percent and 49.22 percent, respectively, this year.

Further output cuts in the third quarter will hopefully bring down emissions of the three major pollutants by 70 percent compared with last year, Zhu added.

Founded in 1919, Shougang is widely considered the flagship of China's heavy industry. With its production base just 17 km west of Tian'anmen Square in central Beijing, it has long been blamed for causing heavy pollution as the plant's chimneys belch out thick clouds of smoke.

As one of the efforts made by the Chinese government to improve Beijing's air quality, Shougang Group began in 2005 to relocate its facilities to Hebei Province about 200 km east of Beijing.

Shougang has promised its new facility would use advanced technologies to reduce environmental impact.

Pollution emission permits delayed

July 4 (China Daily) -- The issuance of pollution emission permits will be delayed, as more time is needed to gauge public opinion, an official with the Ministry of Environmental Protection said on Thursday.

"There is no timetable for issuance of the permits," the official, who refused to be named, told China Daily. He denied media reports the permits would be issued at the end of the year.

Twenty-first Century Business Herald on Thursday quoted a source also from the Ministry of Environmental Protection, as saying "the pollution emission permits will be officially released at the end of this year, or next year, by the State Council".

The ministry official, however, said: "We definitely need more time to make public the legislative procedures."

Pollution emission permits are being introduced to control the total amount of pollutants discharged. Currently, only the concentration of a pollutant is monitored.

"Polluters should make preparations for treatment facilities. The permits are an indication of the country's resolve to introduce increasingly strict standards to protect the environment," Xia Guang, director of the ministry's policy research center, said.

"Currently, we only monitor the toxic level of pollutants and not the quantity discharged, putting a strain on natural purification," Xia said.

Taihu Lake is an example. The lake suffered an outbreak of algae last summer caused by excessive pollutants.

Even if industrial plants near the lake had adhered to the strict emission standards, the amount of discharge was more than the lake could handle.

A pilot program of issuing pollution emission permits has been carried in the lake area, Xia said.

The permits allow emission trading, and this has proved to be an effective measure to reduce pollution, he said.

However, promotion of the permits nationwide will face difficulties, he said.

The permits will meet opposition from industries and local governments, Xia said.

"Strict requirements in emission reduction will add to the costs of industries, such as the installation of waste treatment facilities," he said.

Another problem will be the calculation of how much pollution an area can receive, and how to optimize the allocation of emission credits to individual plants, he said.