

China's Plan to Cap Coal Consumption and Production Needs Political Accountability and Accurate Statistical Reporting to Succeed

CHINA'S OIL & GAS SECTOR FROM WELLHEAD TO CONSUMER

Special Guest Contribution by Kevin Jianjun Tu, Senior Associate, Carnegie Endowment for International Peace.

Key points:

- China aims to cap both national coal production and consumption at around 3.9 billion tonnes by 2015
- Beijing set 3.65 billion tonnes as the national coal production cap in 2012
- It also specified regional caps for China's leading coal producing provinces but preliminary statistics suggest that the 2012 coal output in these provinces were 18 percent, 12 percent and 16 percent higher than their respective caps.
- To improve the credibility of any government-issued coal control targets, it is time for Beijing to seriously consider fundamentally overhauling its statistical reporting system.
- Local statistical bureaus should be made more independent from local governors and changes should be made to allow local governors to be sacked for allowing statistical manipulation.

Coal currently lags behind oil in the global energy mix, accounting for 30 percent of the world's primary energy consumption. However, coal is the backbone of China's energy sector, representing 70 percent of the country's primary energy consumption and 95 percent of its proven reserves of fossil fuels in terms of energy content. In 2011, China not only produced 3.52 billion tonnes of coal (46 percent of the global total), but it also imported 182 million tonnes (Mt) of coal in order to meet its astonishing coal demand growth rate, which has averaged of 8.5 percent annually since 2009, and has surpassed Japan as the largest coal importer in the world for the first time.

The unprecedented scale on which China consumes coal has created enormous environmental challenges. These include the dangerous brew of soot and toxic chemicals from coal combustion that has contributed to severe air pollution across China. Indeed, China's coal-fired carbon emissions by 2010 were already 17 percent higher than total carbon dioxide emissions in the United States that year.

Facing mounting pressure to optimize its unsustainable energy mix and improve its deteriorating environment, China aims to cap both national coal production and consumption at around 3.9 billion tonnes by 2015. At first glance, these targets are compatible with the country's environmental agenda, but the reality is that such type of command and control policy no longer functions effectively in an increasingly market-oriented Chinese economy.

First of all, China's national caps on coal production and consumption are guidelines instead of legally binding targets, only the latter can be translated into a political penalty that affects promotion of officials in case of noncompliance. Chinese local governors are used to relying on growth of either coal mining activities or coal consuming sectors to boost their political ratings, which the Party assesses in part based on local GDP growth rates. As a result, the aggregate coal production and consumption targets at provincial level have far exceeded national caps set by the central government. Even when national caps are set forth, provincial governors have few incentives to comply with these non-binding targets.

In the 2012 Implementation Scheme of China's 12th Five Year Plan for Coal Development, Beijing not only set 3.65 billion tonnes as a national coal production cap in 2012, but also specified regional caps for China's leading coal producing provinces—920 Mt for Inner Mongolia, 810 Mt for Shanxi, and 40 Mt for Shaanxi. However, preliminary statistics suggest that the 2012 coal output in these provinces were 18 percent, 12 percent and 16 percent higher than their respective caps, according to China Coal Transport and Distribution Association.

Further, the quality of China's statistical reporting for the coal sector has become increasingly questionable. This has led to legitimate concerns over the credibility of any government-issued coal control targets. China's statistical reporting system for energy was initially developed—and functioned well—under a planned economy, with the assumption that all units producing, transforming, delivering and consuming commercial energy would provide complete and accurate reports. As China rapidly moved toward a market-oriented economy, the energy activities outside of state-owned enterprises grew rapidly, yet no reliable mechanisms were in place to collect coal-related statistics from China's numerous small, private mines. Therefore the quality of China's coal statistics deteriorated over time.

The National Bureau of Statistics originally reported 998 Mt as China's national coal production in 2000. After statistical revisions in 2006 and 2010, the most recent figure was 39 percent higher than the one in 2000. In 1990, it was relatively clear that China's national coal consumption equaled the sum of coal demand at the

provincial level. In 2000, the former category became 4 percent lower than the latter. To make matters worse, this statistical discrepancy has widened since, reaching 18 percent in 2010.

In recognition of the weakness of its statistical reporting system, the Chinese central government should entirely abandon coal production and consumption caps at the national level. Otherwise, the enforcement of such caps is likely to encourage statistical manipulation on the local and provincial levels. However, in selected coastal provinces (e.g. Guangdong, Zhejiang, Jiangsu) and metropolitan cities (e.g. Beijing, Shanghai) where distortion of statistical reporting is less a concern and the political willingness to improve air quality is relatively high, the central and local governments should work together to set legally binding caps on regional coal consumption.

The aim is to see a peak in China's national coal consumption as soon as possible with reduced use thereafter, which should become the overarching policy goal of a comprehensive long-term national energy strategy formulated to encourage energy conservation, demand-side management, fuel substitution, technological innovation, and the implementation of market-based tools like carbon pricing. This should be complemented by international collaboration on global energy and climate solutions.

To lower mining-related environmental degradation, and to avoid excessive coal production capacity once national coal consumption peaks, Beijing needs to be serious about retarding growth of spiking national coal production and long-distance transport of indigenous coal. And coal imports in coastal provinces should be encouraged to suppress domestic coal-mining and transport activities in the short term. Of course, the environmental implications of China's rising coal imports certainly deserve more policy elaboration in the future.

To improve the credibility of any government-issued coal control targets, it is time for Beijing to seriously consider fundamentally overhauling its statistical reporting system. While the funding mechanism and official appointment at local statistical bureaus should be reformed in order to become less subject to direct interventions from local governors, "one ballot veto" rule should also be strictly applied in case of statistical manipulation – meaning that local governors can be sacked for such violations.

Given China's national circumstances, issuing guidelines on capping coal production and consumption at the national level is unlikely to function effectively. Therefore, setting more readily enforceable legally binding coal consumption caps for selected

provinces and metropolitan areas should serve China's energy and environmental agenda better.

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