

by Zhang Libin and Jason Lee



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of China's total) and brownouts that swept through 13 of China's southern provinces.¹ Since then, record international oil and coal prices have strained Chinese petroleum refiners and power producers, resulting in gasoline and power shortages, and heavy profit losses for private and even state-owned enterprises. In the first quarter, each of China's "Big Five" major power generation groups suffered steep losses due to rising coal prices and rail transportation costs.² Similarly, Chinese national oil companies sustained sharp refining losses despite government subsidies and tax rebates on crude imports. First-quarter profits for Sinopec, China's largest refiner, fell by 69%.³

Surging demand growth from developing countries is one of the primary contributors to the international energy crunch. In China, however, market fundamentals only tell part of the story. Since 1949, China's energy management structure has experienced waves of inconsistent reforms, which has

resulted in a succession of dysfunctional energy bureaucracies incapable of effectively allocating resources, protecting energy security and formulating a long-term national energy strategy. Today, China's energy industry remains in an awkward transition from plan to market, with the pace of government reforms fluctuating according to the stability of economic and domestic conditions.

During this year's 11th National People's Congress (NPC), China's leadership proposed another reshuffling of its energy bureaucracy in the hope of resolving these issues and improving the management of future crises. While efforts fell short of establishing a unified Ministry of Energy, this latest round of reforms is a positive first step toward finally building a healthy energy management system.

After the dissolution of the previous Ministry of Energy in 1993, China's energy institutions have undergone a series of restructurings that have decentralized authority among large state-owned enterprises and individual line ministries responsible for policies within their specific sectors. The emergence of pow-

erful state-owned companies has drastically improved the efficiency China's energy sector by separating the government's regulatory and policy-making functions from those of production and commercial operation; however this dispersion of power has also led to fragmented policy-making, and has hindered Beijing's ability to coordinate responses to major issues such as environmental degradation, skyrocketing energy demand and energy security.

Recognizing the need for a stronger governing structure, Beijing began consolidating the government's energy-related duties with the establishment of the Energy Bureau under the National Development and Reform Commission (NDRC) in 2003. However, with an initial staff of only 30, the bureau was never given the manpower, resources, or authority to succeed.⁴ When widespread energy shortages gripped China in the following years, China's leadership created the National Energy Leading Group (NELG) and State Energy Office (SEO) in 2005 to implement a nationwide energy strategy.⁵ However, these organizations never developed into truly functional policy-making bodies, and struggled to coordinate the competing interests of other ministries and major state-owned energy companies.⁶

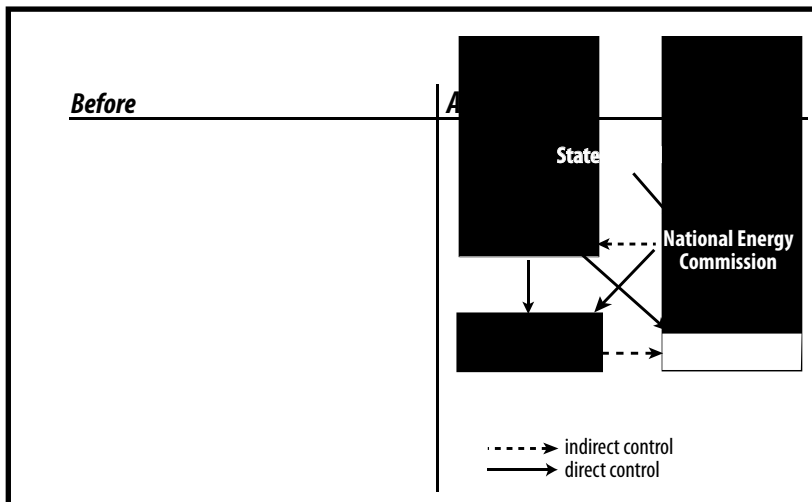
Without a strong independent voice to coordinate policy-making, responsibilities have remained scattered over multiple government ministries, with each sharing the same bureaucratic rank. Of these, the NDRC and its relevant bureaus play the most prominent role, with responsibility over, among other things, energy development planning, energy prices and approval of domestic and international investment projects. Other ministries with energy-related functions include, but are not limited to, the Ministry of Land and Resources, which reviews and grants licenses for mineral and petroleum exploration; the Ministry of Commerce, which sets quotas and issues licenses for the import and export

of oil and refined products; the Ministry of Water Resources, which oversees hydropower development; and the Ministry of Finance, which promotes energy development goals through tax credits and subsidies.⁷

Many observers believed that the 11th NPC represented a golden opportunity to reinstitute a single integrated energy authority. The damage caused by the winter storms stunned China's top leadership, and with the drafting and consideration of a basic *Energy Law*, there seemed to be momentum for bold political reorganization.⁸ However, in a familiar reprise of previous reforms, efforts to establish a unified Ministry of Energy were derailed to a certain extent by influential bureaucrats concerned by overlapping jurisdictions, and from large state-owned energy enterprises that feared additional layers of authority over their operations.⁹

In a compromise with these vested interests, two new government organs, a National Energy Administration (NEA) and a National Energy Commission (NEC), were proposed to replace the existing bureaucratic structure. According to the Plan for Restructuring the State Council, the NEC will replace the NELG as the government's high-level energy advisory and coordination body, and research broader energy development and security issues. Meanwhile, the NEA will assume overall administrative and policy-making control over China's energy industry, merging the functions of all energy-related departments under the NDRC, the SEO, and the office in charge of the administration of civilian nuclear power.¹⁰ In terms of hierarchy, the NEA will be elevated to vice-ministerial status but still report to the NDRC; however, in order to ensure a certain level of independence, the NEA will have its own Communist Party committee, as well as offices located away from the main NDRC complex in Beijing.¹¹

After an extended consultation process, the State Council finalized the function, orga-



nizational structure, and staffing of the NEA in late-July. According to the plan, staffing at the NEA will expand to 112 – almost double the 57 that worked at the original NDRC Energy Bureau – who will then be divided among nine departments, including those responsible for administering the oil and gas, coal, power and renewable energy industries. During a conference to mark the establishment of the new regulatory body, Zhang Guobao, vice chairman of the NDRC and newly-appointed head of the NEA, stressed that the agency would avoid getting bogged down by project approvals and focus its efforts on macro-level tasks such as researching and drafting long-term energy policies, and amending key laws and regulations.¹²

While the core structure and function of the NEA will bear a strong resemblance to the previously overwhelmed NDRC Energy Bureau, it will be strengthened with additional authority over several vital areas. First, the agency will obtain administrative control over China's refining industry and strategic oil reserves, including the building and releasing of such reserves, and supervising the management of commercial reserves.¹³ The NEA will also establish a department for energy cooperation that will approve major overseas investments, and more importantly, negotiate and sign cooperative agreements and contracts with foreign governments and institutions.

The most critical development, however, is the integration of the NEA into the decision-making process for price adjustments to energy products such as electricity and petroleum. In the past, the Pricing Department of the NDRC exercised sole control over price adjustments, which hamstrung the original NDRC Energy Bureau when attempting

to resolve price disagreements between the coal and power producers. Under the new system, the NEA will have the power to propose price adjustments subject to NDRC and State Council approval; conversely, the NDRC will consult with the NEA if it wishes to make adjustments.

These improvements notwithstanding, the NEA will likely face considerable obstacles down the road. One concern is that the agency may lack the manpower to satisfy its ambitious mandate. NEA staffing will double that of its predecessor, but can 112 bureaucrats realistically handle the demands of overseeing an industry totaling over RMB 10 trillion in assets? Another consideration is that the NEA may not have the political strength to balance the interests of the various stakeholders in China's energy sector. As a new agency that lies at the intersection of countless interests and overlapping jurisdictions, the NEA desperately needs all the bureaucratic heft it can muster. With only vice-ministerial status, however, the NEA does not formally outrank the line ministries and certain large state-owned companies such as CNPC and Sinopec, which are bureaucratically equivalent to a full ministry and whose general managers carry vice-ministerial status. Here, the appointment of Zhang Guobao as director of the NEA may prove essential: as executive vice minister of the NDRC, Zhang carries full ministe-

rial status and the authoritative weight of the NDRC.

In the end, much may depend on the leadership ability of the NEC to support the NEA in coordinating disparate viewpoints. Few specifics are presently known on the membership of the group or the extent of its functions, however, one thing is eminently clear: it will need to play a more active role than the largely symbolic NELG, which according to media reports, met only twice during the length of its entire tenure.¹⁴

This latest bureaucratic restructuring will improve the government's ability to manage China's energy industry, but much remains undone. Critics will be disappointed by yet another round of incremental changes, and using history as a guide, these concerns are understandable if not expected. In a culture that emphasizes harmony, compromise and consensus, government reforms in China are a drawn out process, and this "Commission and Bureau" model is another reminder of that reality. That being said, this new structure gives good reason for optimism. With concentrated and expanded regulatory functions, increased institutional independence and credible political strength, the government may have finally created a legitimate foundation for the eventual transition to a full energy ministry and a brighter energy future.

Notes

¹ "China Aims to Curb Power Shortages," *Wall Street Journal*, Jan. 24, 2008.

² China's "Big Five" power generation groups include Huaneng, Huadian, Guodian, China Investment Power and Datang.

³ "Sinopec Net Plummets in Spite of Subsidy," *Wall Street Journal*, Apr. 28, 2008.

⁴ "China's Crisis Hit Energy Bureau Lacks Tools for Job," *Radio Free Asia*, Dec. 16, 2004.

⁵ "Leading small groups" are ad hoc supra-ministerial coordinating and consulting bodies formed to build consensus on issues that cut across the government, party and military systems when the existing bureaucratic structure is unable to do so. These groups pro-

vide a mechanism for top decision-makers to exchange views—both formally and informally, and to develop recommendations for the Politburo.

⁶ For more on this, see Erica S. Downs, *China. Energy Security Series 67*. (Washington: Brookings Institution, 2006).

⁷ Kong Bo, "Institutional Insecurity," *China Security*, Vol 2, No. 2, Summer 2006, p.71; Michael E. Arruda, "China Energy Sector Survey Part II: The Energy Institutions," *China Law & Practice*, December 2003/January 2004.

⁸ See, for e.g., "China to Set Up Energy Ministry in March – Report," *Xinhua*, Nov. 13, 2007; "Hu's Superman Tales on Streamlining Plan," *South China Morning Post*, Jan. 14, 2008; "Ministry of Energy to be Established Next Year in March, End Multi-Management Situation," (*wo guo mingnian sanyue jiang chengli nengyuanbu yao jieshu duotou guanli jumian*), *Dongfang Zaobao*, Nov. 15, 2007.

⁹ "China Reshuffles Energy Sector – Little Change Seen," *Reuters*, Mar. 11, 2008, <http://www.alertnet.org/thenews/newsdesk/PEK252960.htm>.

¹⁰ See, for e.g., "National Energy Administration 'Three Laws' Plan Emerges, Establishes Nine Departments," (*guojia nengyuanju de 'sanding' fang'an chulu xiasheng jiu ge siju*), *Caijing*, June 27, 2008; "Energy Management Reshuffle Starts," *China Daily*, July 7, 2008.

¹¹ Decision of the First Session of the Eleventh National People's Congress on the Plan for Restructuring the State Council, promulgated by the National People's Congress on Mar. 15, 2008.

¹² "Newly Established National Energy Administration Oriented Toward Macrolevel Management," (*xin zujian de guojia nengyuanju dingwei hongguan guanli*), *Xinhua*, Aug. 1, 2008.

¹³ Primary Responsibilities, Structure and Staffing of the National Energy Administration, State Commission Office for Public Sector Reform, approved by the State Council on July 29, 2008.

¹⁴ "Newly Established National Energy Administration Oriented Toward Macrolevel Management," (*xin zujian de guojia nengyuanju dingwei hongguan guanli*), *Xinhua*, Aug. 1, 2008.

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