China's "New" Energy Administration

China's National Energy Administration will struggle to manage the energy sector effectively

Erica S. Downs

China's new National Energy Administration (NEA), established in March 2008, is the PRC government's latest attempt to create an effective national-level energy institution. Periodic restructurings of China's energy bureaucracy since 1949 have produced a series of institutions that lacked the authority, autonomy, resources, and tools to govern the energy sector. NEA is unlikely to be an exception.

China's "old" energy bureaucracy

Despite the growing importance of energy issues on China's domestic and foreign policy agendas, the country's bureaucracy lacked the capacity to manage the energy sector effectively. Some Chinese and foreign commentators even maintained that China's energy security was undermined by the very institutions responsible for enhancing it. These commentators argued that the splintering of energy sector authority among multiple institutions—some of which are understaffed, underfunded, and politically weak, such as the now defunct Energy Bureau under the National Development and Reform Commission (NDRC)—has impeded coordination across industries and ministries, frustrating the formulation, implementation, and enforcement of energy policies. Consequently, restructuring China's energy bureaucracy has been a subject of intense debate in recent years as the country grappled with an unexpected surge in energy demand, growing dependence on energy imports, rising global energy prices, and periodic domestic energy shortages.

Authority over China's energy sector at the national level is fractured among more than a dozen government agencies, the most important of which is NDRC. Within NDRC, responsibility for energy is similarly scattered among multiple departments. Prior to the March 2008 government restructuring, NDRC's Energy Bureau had a broad mandate to manage the energy sector but lacked the authority, tools, and manpower to fulfill it. In 2005, the government established the National Energy Leading Group, an advisory and coordination body under the State Council, headed by Premier Wen Jiabao. The leading group's creation reflected China's recognition of the need to strengthen energy sector management but did not eradicate its energy governance woes, which were rooted in the structure and power distribution of the energy bureaucracy itself.

China's fragmented energy bureaucracy has impeded energy governance because there is no single institution, such as a ministry of energy, with the authority to coordinate the interests of the various stakeholders. Turf battles among various energy institutions have often resulted in energy laws that fail to specify agencies responsible for the content of those laws, delaying or preventing implementation. For example, conflicts among key stakeholders have prevented the implementation of a fuel tax that the National People's Congress (NPC) approved in 1999. The ministries of Transportation and Finance and the State Administration of Taxation cannot agree on which agency will take responsibility for the 27,000 toll collectors who would lose their jobs if the fuel tax were to be implemented.

Policy paralysis within the energy bureaucracy stands in sharp contrast to the activism of China's state-owned energy companies. These firms are powerful and relatively autonomous actors. Their influence stems from their full and vice ministerial ranking, membership of key executives in the Central Committee of the Chinese Communist Party (CCP), industry expertise, internationally listed subsidiaries, and profitability. More often than not, it is China's energy firms that initiate major energy projects and policies, such as the West-East Gas Pipeline and the acquisition of foreign energy assets, that are later embraced by the government. Yet energy companies sometimes advance corporate interests at the expense of national ones. For example, oil and power generating companies have periodically reduced their output to pressure the government to raise state-set prices of refined products and electricity, which have not kept pace with market prices of crude oil and coal. Similarly, China's national oil companies have ignored guidance from the central government about where they should invest overseas. China National Petroleum Corp. (CNPC) acquired more assets in Sudan even after NDRC in 2007 excluded Sudan from a list of countries in which Chinese oil companies were encouraged to invest.

China's "new" energy bureaucracy

Recent changes to China's energy policymaking apparatus are the latest in a series of institutional reforms aimed at improving energy governance. In March 2008, the NPC approved two new additions—the National Energy Commission (NEC) and NEA. NEC, a high-level discussion and coordination body, whose specific functions, organization, and staffing had not been announced as *CBR* went to press, will replace the National Energy Leading Group. During the NPC meeting, then-State Councilor Hua Jianmin stated that NEC is intended to strengthen energy decisionmaking and coordination. NEC will draft a national energy development strategy and discuss major energy security and development issues. NEA, which replaced NDRC's Energy Bureau, will handle NEC's daily affairs. NEA also absorbed other energy offices from NDRC, the Office of the National Leading Group, and the nuclear power administration of the Commission of Science, Technology, and Industry for National Defense (COSTIND). It has nine departments (see Figure).

NEA has a broad mandate, which includes managing the country's energy industries, drafting energy plans and policies, negotiating with international energy agencies, and approving foreign energy investments. Like its predecessor, however, NEA will struggle to fulfill its mandate because it lacks the authority, autonomy, manpower, and tools to deal with the country's energy challenges. Though NEA's capabilities in each of these areas are greater than those of the former NDRC Energy Bureau, they still do not equip NEA to do its job.

Quick Glance

- Periodic restructurings of China's energy bureaucracy have produced institutions that lack the authority, autonomy, and tools to govern the energy sector.
- The new National Energy Administration will similarly struggle to fulfill its mandate.
- China's politically powerful and relatively autonomous state-owned energy companies play a large role in shaping China's energy policy.

Authority

NEA has more political clout than its predecessor but not enough to mitigate the bureaucratic infighting that undermines energy decisionmaking. As a vice-ministerial body, it is a step above the former Energy Bureau, but it still lacks the authority to effectively coordinate the interests of ministries, commissions, and state-owned energy companies. The heads of some of these companies—for example, the CNPC, China Petroleum and Chemical Corp. (Sinopec), State Grid Corp., and Shenhua Group—hold ministerial rank. One complaint of former Energy Bureau officials was that energy companies often undercut Energy Bureau authority by holding face-to-face discussions with senior PRC leadership.

NEA's authority is somewhat enhanced by the appointment of Zhang Guobao, NDRC vice chair and second-highest-ranking NDRC official, as director. Though it was widely expected that Zhang would retire, his new position reflects his substantial energy expertise. Zhang, who has worked at NDRC and its predecessors since 1983, is a smart and skillful bureaucrat with encyclopedic knowledge of China's energy sector. He has overseen the development of some of the country's major infrastructure projects, including the West-East Gas Pipeline, the transmission of electricity from west to east, the Qinghai-Tibet Railway, and the expansion of the Beijing Capital International Airport.

Though Zhang has full ministerial rank, he is not as politically powerful as some of the officials and company executives with whom he must coordinate energy policy. Zhang is not a member of the 17th CCP Central Committee, which consists of the 371 most politically powerful individuals in China. Minister of Industry and Information Technology Li Yizhong, Minister of Railways Liu Zhijun, and Chair of the State Assets Supervision and Administration Commission Li Rongrong are all full members. CNPC General Manager Jiang Jiemin, Sinopec Group President Su Shulin, and State Grid Corp. President Liu Zhenya are alternate members.

Autonomy

One of the great uncertainties surrounding NEA's establishment is how much autonomy it will have from NDRC on energy policy. On the one hand, there are two indicators that NEA will have a fair amount of policy independence. First, NEA reports directly to the State Council on substantive matters, though NDRC retains responsibility for NEA's logistics. Second, NEA has its own CCP Group, which gives it greater autonomy in managing its affairs. On the other hand, Zhang Guobao's dual role as both NDRC vice chair and NEA director raises questions about where his interests will lie when confronted with issues on which NDRC and NEA disagree.

Personnel

The central government is still managing the energy sector with a relatively small staff. Contrary to rumors that NEA's staff would be as large as 200, it ended up with just 112 people. This staff is larger than that of the former NDRC Energy Bureau, Office of the National

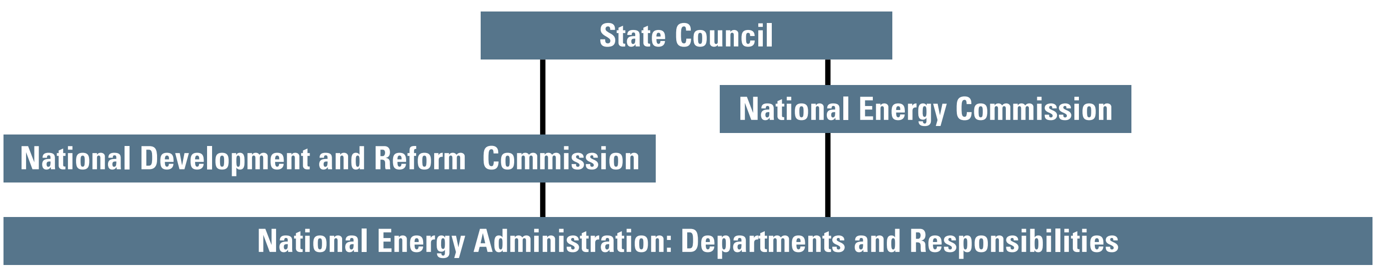
Energy Leading Group, and COSTIND's nuclear power administration combined, which totaled about 80 people, but is still much smaller than the central government needs. In comparison, the US Department of Energy has about 4,000 employees dedicated to energy matters. Moreover, *Caijing* magazine has speculated that NEA may face the problem of "too many generals and not enough soldiers," because at least half of the 112 slots are for positions at the deputy department head level and above. The State Commission Office for Public Sector Reform—the government body that determines the functions, internal structure, and staff quotas for government institutions—probably resisted NEA's calls for more personnel out of concern that other government bodies would press for more manpower and limit the State Council's attempts to streamline the bureaucracy.

Pricing power

Another constraint on NEA's ability to fulfill its mandate is its lack of authority to set energy prices, which remain the purview of NDRC's Pricing Department. In remarks made to an economic forum in Beijing at the end of March, Zhang Guobao revealed that the issue of which agency would end up with the power to determine energy prices was a subject of "constant dispute" during the March bureaucratic reorganization. Although NEA can make suggestions about energy price adjustments and should be consulted by NDRC on proposed changes, NDRC and ultimately the State Council, whose approval is needed for any major energy price changes, retain control over energy prices. This is hardly surprising. The power to set prices is one of NDRC's main instruments of macroeconomic control, and it is reluctant to relinquish this power to another government body that might be tempted to adjust energy prices in ways that run counter to broader NDRC objectives such as combating inflation.

Ironically, price controls for energy periodically jeopardize the economic growth they are intended to support. Prices for diesel fuel, gasoline, and electricity are set by the state while prices for crude oil and coal are determined by the market. The failure of state-set prices to keep pace with the soaring increases in crude oil and coal prices has contributed to domestic shortages of refined products and electricity because some refiners and power generators have suspended or curtailed their operations to trim their losses. Coal shortages in parts of China and difficulties delivering coal and power supplies to where they are needed are also responsible for current power shortages.

Electricity distribution is a natural monopoly regulated by governments around the world to prevent utilities from charging consumers excessively high prices. In China, the responsibility for electricity pricing should belong to the State Electricity Regulatory Commission (SERC), an ostensibly independent regulator established under the State Council in 2003. Yet as long as NDRC refuses to yield key tools to SERC, including the authority to determine prices and approve new capacity installations, SERC will be unable to fulfill its mission to provide consumers with affordable, reliable electricity.



General Administration
Manages the administration's daily operations, including personnel, Chinese Communist Party affairs, financial management, asset management and press affairs.

Policy and Legislation
Studies important energy problems, organizes the drafting of energy legislation, and conducts administrative auditing and review.

Development and Planning
Studies and provides suggestions on energy development strategy; organizes the drafting of macro-level energy development programs, yearly plans, and industrial policy; and undertakes energy industry reform work.

Energy Conservation and Scientific Equipment
Directs energy conservation and comprehensive resource use, prepares standards, and promotes energy-saving technologies and equipment.

Power
Plans thermal and nuclear power development, manages the national power network, and handles nuclear power station crisis management.

Coal
Manages the coal industry, drafts plans for coal mining, undertakes system reform, and develops advanced technology for reducing pollution caused by coal burning.

Oil and Natural Gas
Manages the oil and gas industry, plans oil and natural gas development, promotes industry reform, and manages national and commercial oil reserves.

New and Renewable Energy
Directs and coordinates rural energy development and plans the use of new and renewable energy.

International Cooperation
Undertakes international energy cooperation, drafts strategies, laws, and policies for opening up China's energy sector and coordinates the development and use of overseas energy.

Source: PRC National Development and Reform Commission and Xinhua News Agency

More business as usual

China's new energy structure is unlikely to improve energy governance substantially. Though the energy bureaucracy looks a bit different, its limited capacities remain largely unchanged. Consequently,

- **Periodic domestic energy shortfalls will continue.** Prolonged electricity shortages, in particular, will likely have economic costs as blackouts prompt firms, especially in the manufacturing and metals sectors, to reduce output. As long as the specter of inflation looms large, Chinese economic planners will likely try to eradicate energy shortages with administrative policy instruments that treat the symptoms but not the disease. Government subsidies to energy producers that only partially offset their losses; the creation of high-level task forces to coordinate the oil, coal, electricity, and transportation sectors; and exhortations from senior leaders to the state-owned oil and power companies to provide consumers with adequate supplies will continue.
- **Bureaucratic infighting will impede energy decisionmaking.** NEA lacks the authority to resolve disputes among more powerful actors. Their competing and conflicting interests are likely to undermine not only policy formulation and implementation but also the drafting of laws and regulations and further energy bureaucracy restructuring.
- **China's state-owned energy companies will likely remain the dominant drivers of projects and policies.** Energy giants will continue to take advantage of the paralysis that pervades the national-level energy bureaucracy to shape the development of China's energy sector. Companies are likely to be especially successful when they link their corporate interest in a particular project to a national interest articulated by the PRC leadership.

Future energy bureaucracy reshuffling

The modest tinkering to China's energy bureaucracy unveiled during the March 2008 NPC reflects conflicts of interest that stymie energy decisionmaking. Despite widespread recognition among PRC officials and energy experts of the need to make the country's energy institutions effective and growing support for the establishment of a ministry of energy, powerful ministerial and corporate interests favor the status quo. Opposition to the creation of a ministry of energy—a hot topic of debate in China's energy circles in recent years—was led by NDRC and the state-owned energy companies. NDRC fears that the establishment of such a ministry would deprive NDRC of a substantial portion of its portfolio and important tools of macroeconomic control. Energy firms are reluctant to have another political manager and fear that it would limit their direct access to China's leadership. Such opposition helps explain why the government was unable to forge a consensus in favor of more robust changes to China's energy bureaucracy.

NEA is almost certainly a transitional institution. The limits of its authority, autonomy, manpower, and policy instruments indicate that it may have trouble effectively managing China's energy challenges. If NEA fails, then calls for a ministry of energy will reemerge and another bureaucratic reshuffle will occur. 完

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The waste connected with a system of investment allocation that is heavily influenced by politics and rent seeking is enormous. Again, China has made progress in this area, but decisions, particularly by the state owned banking system, are still heavily influenced by politicians.

Other areas discussed briefly include reallocation of labor from low-productivity activities in the rural areas to much more productive work in industry and urban services, the challenge China faces in shifting a larger portion of aggregate demand from dependence on exports to a greater dependence on domestic demand, and shocks to the economic system that could derail economic growth. A period of political instability is in this regard probably the greatest danger to China's continued growth, but the conditions that could bring this about are outside the scope of this article. Some have suggested that China's current environmental situation could be a shock to the system that derails growth, but to do so the cost of cleaning up the environment would have to cut deeply into total capital formation and in China, this is unlikely.

China's economy will continue along a path of rapid growth over the next two decades, with annual growth averaging 6–8 percent in real terms. While considerably below the 9.5 percent real growth recorded during 1978–2005, two decades of expansion at rates between 6 and 8 percent will deliver large increases in the absolute and relative scale of China's economy and in the standard of living available to its nearly 1.5 billion citizens. 完

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