

**China's Policies on Energy, Oil and Natural Gas
in the New Century**
---- Keynote Speech on the Sixth Sino-US Oil and Gas Forum
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Respectable Mr. Clay Sell,

Respectable Mr. David Sampson,

Ladies and Gentlemen, dear friends,

Good morning!

Today we hold the Sixth Sino-US Oil and Gas Forum in New Orleans, a “city of music”. It’s my great pleasure to attend this forum. The US side made great efforts in arranging every detail for the success of this forum. One thing I’d like to point out in particular is that, before the meeting begins, you arranged the Chinese delegation to visit the US energy utilization facilities and your National Natural Gas Distribution Center. Such activities provided us with on-spot knowledge about energy utilization and the commercialization of natural gas in your country, which deeply impressed us. Here, on behalf of the Chinese delegation, I’d like to extend my sincere appreciation to our American friends for your diligent efforts in the preparation of this forum. Meanwhile, I wish a full success for this forum.

The Sino-US Oil and Gas Forum is one of the major activities in our bilateral energy cooperation. This forum has been held in the spirit of the Sino-US Energy and Environment Cooperation Initiative adopted by presidents Clinton and Jiang Zemin in 1997. Both governments have attached great importance to this forum. Since the First Sino-US Oil and Gas Forum held in Beijing in November 1998, five forums have been successfully convened, which played their roles in the bilateral cooperation in oil and gas, as well as provided an effective communication platform for mutual learning, common development and improving understanding of mutual concerns. It's my great honor to take this opportunity to introduce to you China's policies on energy, oil and gas and provide some observations on future expansion of Sino-US energy cooperation.

First, the overview of China's energy industry

In the past more than 50 years since the establishment of the People's Republic of China (PRC), especially in the last two decades since we adopted the reform and opening-up policy, China has witnessed substantial progress in the energy industry through continuous hard work. These achievements are mainly demonstrated as follows: China's energy output keeps increasing, energy consumption structure continues to be optimized, energy industry has been further

modernized, reform in energy industry management system goes on deepening, energy conservation work yields notable results and the energy and environment issues have attracted world-wide attention.

1. China is both a leading energy producer and consumer. In 2004, the primary energy output reached the equivalence of 1.845 billion tons of standard coal while the total yearly energy consumption is equivalent to 1.97 billion tons of standard coal, ranked the second in the world. The self-reliant rate topped 94%, showing that most energy China consumed came from domestic supply.

2. China's energy consumption structure continues to be optimized. The proportion of coal in primary energy consumption dropped from 76.2% in 1990 to 67.7% in 2004, while that of oil rose from 16.6% to 22.7%. The percentage of natural gas, hydropower, nuclear power, wind power and solar power in total jumped from 7.2% to 9.6% in the same period.

3. China's energy industry has become more modernized with the upgrading of technologies and equipments. Currently we can design, construct, equip and manage 10-million tons of open-pit coalmines as well as large and medium-sized mining areas. New achievements have been made in the exploitation, development and refining technologies of petroleum. China boasts special advantages in the prospecting and development of low-grade oil and gas reserves in areas with

complicated geological conditions. The electricity industry has entered a new stage mainly featuring large-capacity units, large power plants, super-height voltage and automation.

4. Reform of energy sector management system has been kept deepening with the market playing a bigger role. The market has decided the coal prices. Coal production, transportation and sale have been deregulated. The merge, restructuring and clustering of coal companies have achieved initial success. The role of market has been given a bigger say in the oil industry. By the end of 2004, we lifted all controls over the retail of oil products. According to our commitments on the accession to the World Trade Organization (WTO), we will continue to open the wholesale sector of crude oil and oil products. Reforms in the power sector, which allow a larger role for the market, have made decisive progress. We have turned into reality the separation of power plants from grids, diversified the investment in the construction of power plants, and set up the electricity industry monitoring institution. Based on the principle of “Breaking monopoly, introducing competition, improving efficiency and reducing costs”, reform in electricity pricing mechanism goes underway.

5. Energy conservation yields notable results with improving energy efficiency. The energy consumption of per 10,000 yuan GDP hovered at 1.44 tons of coal equivalent in 2004, down 70% from that of

1991, which means the reduction of SO₂ emission by 10.50 million tons and CO₂ by 440 million tons in this period. Progresses made in energy conservation contributed to the relaxation of domestic energy shortage, the improvement of regional environment quality and the protection of global environment.

Second, China's policies on energy, oil and natural gas in the new century.

To realize the goal of quadrupling China's GDP from 2000 to 2020, the Chinese government prioritizes energy as a strategic point in economic development, focuses on putting people first and advocates the scientific development views. It has stipulated and implemented energy development strategies, plans and various policies and measures, as well as deepened reform in energy management system, so as to provide stable, cost-effective, clean and reliable energy for our sustainable socio-economic development. Meanwhile, we should pay due attention to the sustainable utilization of energy resources, advocate the building of an energy-saving society, develop circular economy and highlight environmental protection.

Here I'd like to elaborate on China's policies on energy, oil and natural gas in the 21st century. Such policies can be summarized as "Prioritize energy conservation backed by improving efficiency,

diversify sources with coal as the backbone, optimize structure, protect environment and mainly rely on domestic supply while open up to the outside world”.

1. Prioritizing energy conservation backed by efficiency improvement is a must choice in line with China’s energy reality. With the steady expansion of economic aggregates and improvement of people’s livelihood, the fundamental way to solve the major energy problems in China is to improve energy efficiency in an all-round manner, further prioritize energy conservation in the socio-economic development strategy, and adjust both the economy structure and the energy mix. The Chinese government attaches great importance to energy conservation. In November 2004, the government issued its first Mid-to-Long Term Specific Plan for Energy Conservation. According to this plan, China will go on adhering to the principle of “exploration and conservation go hand in hand while prioritize the latter”. We will work hard to innovate and apply various energy-friendly technologies. Through adopting a series of effective measures such as improving the legal system, enhancing law enforcement, and deepening reforms in the energy sector, we try to increase energy utilization efficiency, so as to materialize the goal of quadrupling GDP by 2020 while energy consumption is only doubled or even less in the same period. Although the energy consumption related indexes have been greatly improved in

China, compared with developed countries, we lag behind in irrational economic structure, low proportion of the tertiary industry, which stands at 32%, and high energy consumption per unit in major industries. For example, we take 379 grams of coal equivalent to generate kilowatt-hour of power, while the international advanced level is 310-330 grams. We lose 7.6% of power in electricity transmission, while the advanced level is 5-6% internationally. The recovery rates of oil and coal stand at merely 27% and 30% respectively in China, resulted in great waste. There are still many old and obsolete electrical machines with large energy consumption. As long as we upgrade technology and eliminate the out-of-date techniques and equipments, we can see immense potential in energy conservation in China.

2. Diversified development with coal as the backbone is a fundamental strategy for future energy policies in China. As a major developing country, we should stick to the principle of mainly relying on domestic energy supply in the long run to ensure energy security.

Based on the characteristics of our energy resources, China's energy structure with coal as the bulk, electricity as the center, oil, gas and new energy enjoying full development, will remain unchanged for a relatively long period in the future. Therefore, the central task for our energy restructuring is optimizing the secondary energy mix, with special focus on improving coal utilization efficiency and making coal

cleaner. The major tasks of China's energy policies are improving coal utilization efficiency, encouraging clean usage of coal, developing coal liquefaction and gasification technologies, promoting large-scale and highly efficient clean coal power generation, and increasing the proportion of coal for power generation in the total coal consumption. Meanwhile, we should step up efforts to explore hydropower, energetically push forward nuclear power construction, encourage the development of renewable energy such as wind power and biomass, and actively participate in the research of new energy such as hydrogen and natural gas hydrate. By establishing a diversified energy utilization structure, we could better support future economic growth. Recently the National People's Congress has passed the Renewable Energy Law. China will energetically develop renewable energy, which mainly consists of wind power, biomass, solar power and hydropower.

3. Optimizing structure and protecting environment are the real requirements of building up a relatively well-off society in an all-round way. At present, the proportion of clean, high-quality energy in the primary energy consumption structure has been uplifted to some extent, but the overall structure needs further improvement. Therefore, to meet the energy demand of economic development and people's livelihood, we should keep improving the proportion of clean energy and reduce the pollution of energy on the environment. These are the double goals

in our way to realize sustainable utilization of energy. They are also necessary conditions in promoting our socio-economic development in a sustainable manner. We estimate that the proportion of oil in primary energy consumption will climb from 23% in 2004 to 24-27% in 2020, while that of clean energy such as natural gas, hydropower, nuclear power and renewable energy will reach around 22%.

4. Mainly relying on domestic supply while opening up to the outside world is an important principle in China's oil and gas development. Mainly relying on domestic supply means that, firstly, we should strengthen exploitation and development of oil and gas resources. Backed by theoretical innovation and technological advancement, we would step up efforts to explore oil and gas resources, so as to provide a solid base for the stable growth of oil production and fast output expansion of natural gas. At the same time, we should continue exploring and adjusting old oil and gas fields while exploiting new fields with improved recovery rate. By cultivating and expanding the user market, we will accelerate the development of natural gas in China. Since the reform and opening up, the oil and gas industry, as one of the first sectors opened to the outside world, has made impressive progresses in international cooperation. I'd like to point out here that several companies, such as ConocoPhillips, Chevron Texaco and Apache, have successively participated in 57 oil and gas exploration

and development projects onshore and offshore in China. Some have performed really well.

Your Excellencies,

I'd like to add in particular that, the Chinese government has recently established the National Energy Leading Group to ensure the implementation of policies on energy, oil and gas and relative measures in the new century, as well as to ensure adequate energy supply for national economic development. The leading group aims to strengthen energy management to further enhance the leadership on energy strategy, planning, key policies, and the work on energy development and conservation, and to coordinate and map out our plans for energy development. The acting office of the National Energy Leading Group resides in the National Development and Reform Commission.

Ladies and gentlemen, dear friends,

As we all know, oil prices in the international market keep jumping with a wide swing at high price levels since 2004, which gripped world attention. Many analyses and comments on oil price hikes have surfaced in the international community and from the media. Some attribute it to the fragile equilibrium between world oil supply and demand. Some blame it on the speculative activities while some others take the growing demand of China, India and other countries as

the scapegoat. I think the last opinion, that is attributing oil price hikes to the increasing demand of China and other developing countries, is both unreasonable and untenable. In recent years, China's economy has been expanding fast, leading to the increase of oil consumption to some extent, which inevitably resulting in some import of oil from the international market to meet China's need. Although the import does climb and the margin is relatively large, if we scrutinize the total volume, the fact is that China's import of oil stood at 120 million tons of oil in 2004, only accounting for about 7% of world total. In 2004, per capita energy consumption in China reached 1.06 tons of oil equivalent, a meager 13.4% of that of the United States, which stood at 7.91 tons of oil equivalent. Therefore, the large increase margin of China's oil consumption comes from a relatively small base of energy consumption. China's consumption growth is not the essential reason for international oil hikes. I agree with the analysis of many energy institutions and friends from the media, that is, there exists basic equilibrium in overall oil supply and demand worldwide. The new round of oil price hikes was mainly triggered and shaped by contingent incidents, unstable regional situation and speculative activities. It's also because of these reasons that China, as a major oil net importer in Asia, paid expensive prices for oil price hikes. Oil as an individual commodity, has resulted in trade deficit with over 30 billion USD for China last year, which is

unbearable. To solve the problem, the Chinese government has put forward five corresponding measures, i.e., sticking to the principle of emphasizing both exploration and conservation while prioritizing the latter; giving the fundamental role of coal in ensuring energy supply to a full play while actively developing new and renewable energy, working hard to explore alternatives for oil and optimize energy production and consumption mix; further strengthening domestic prospecting and development of oil and gas, continuing the stable output growth of domestic crude oil while accelerating the development of natural gas to ensure the dominate role of domestic energy supply and reduce our reliance on world market as much as possible; energetically participating in oil and gas exploration and development internationally; speeding up efforts on building a National Oil Reserve System and an emergency-response mechanism for oil security.

Third, establish a new mechanism for Sino-US energy cooperation.

Both the United States and China are world major energy consumers. The combination of our consumption volumes exceeds one-third of world total. To our pleasure, we see the over two-decade energy cooperation between our two nations has yield fruitful returns. To further promote future bilateral energy cooperation and stabilize

world energy market, in our opinion, will be helpful and constructive in creating a stable, harmonious and sustainable environment for human being. Both parties should take full account of mutual concerns. It is the inevitable trend of history that China has been developing its economy and shaking off poverty and backwardness. All countries should follow China's development with the right attitude. To spread "the China Threat" and try to curb China's progress and starve its energy need is not in the interest of the world stability and development. Such attempts are doomed to fail.

Bearing these in mind, I suggest:

---- Add new levels of dialogue and increase mutual understanding.

For the last 20-odd years, energy cooperation has become one of the major themes of bilateral exchanges. Companies from both countries have carried out extensive energy cooperation in the United States, China as well as the third nations. The bilateral energy cooperation is positive and fruitful. I am pleased to recall Memorandum of Understanding (MOU) on Sino-US Energy Policy Dialogue signed by Mr. Spencer Abraham and me last year. It is this MOU that formally gave birth to a new mechanism of energy policy dialogue and opened up a new window for its cooperation. On the basis of the Sixth Sino-US Oil and Gas Forum and the Sino-US Energy Policy Dialogue, I hope, the bilateral energy dialogue and cooperation can be carried out at

multi-levels, over a wide range, and in an all-round way, so as to further improve mutual understanding. For instance, the bilateral mechanisms of energy policy exchanges and information sharing can be implemented at three different levels. At the policy level, i.e., bilateral official exchanges between governments should focus on the introduction and explanation of energy policies, including oil and gas ones. At the information level, emphases will be laid on periodical exchanges between energy functionary departments on data about energy production and consumption in the world. World energy production situation and future trends can be discussed. At the technical level, energy functionary departments, companies and research institutions will hold periodical exchanges and communication on technical issues about energy.

---- Expand cooperation and promote common prosperity. For over two decades, governments and enterprises in both nations have made great efforts for energy cooperation. By May 2005, backed by the support of both governments, companies from both nations have carried out extensive energy cooperation, including investment in oil and gas, energy conservation technology, research on new energy and advanced equipments etc.. Their efforts have contributed to the stability of world energy market, the promotion of both economies and that of the world as a whole. Starting from the current cooperation, I hope, governments

and companies in both nations will further broaden the range of cooperation to areas such as oil and gas exploration in deep sea, the oil reserve system, economic utilization of oil; technologies about coal mine safety, clean coal utilization and CO2 emission reduction; exploitation and utilization of natural gas, including that of coal-bed methane; application of new technologies in the energy sectors including nuclear power, energy conservation and efficiency improvement; new energy development etc..

Ladies and Gentlemen, dear friends,

With the accession of China to the WTO, its energy sector, especially the oil and gas industries will adopt a more active attitude towards outward exchanges and cooperation so as to further promote the all-round, multi-level and wide-range opening. We will relax controls or change restricted policies to encouraging ones in sectors such as risk exploitation, improvement of oil and gas recovery rate, exploration of untouched reserves, construction of long-distance gas pipelines and urban gas distribution networks. The Chinese government will continue to encourage the participation of foreign capital in risk prospecting of the oil and gas fields. We sincerely welcome energy companies from around the world, including American ones, to enhance cooperation with us. The vast market and abundant undeveloped

resources in China will offer numerous opportunities, and imply bright prospects for the bilateral energy cooperation between the United States and China. Adhering to the principle of equality and mutual benefits, complimenting each other, strengthening exchanges and deepening dialogue, the Sino-US cooperation on energy, oil and gas sectors will surely achieve more fruitful results, and will make contributions to the world economic stability and prosperity.

Thank you!