PUBLIC RECORD

Radio Free Asia

China Government Lowers Coal-fired Power Rates as Economy Slows

An analysis by Michael Lelyveld
2015-04-27

A coal terminal at Lianyungang port in Jiangsu province, June 23, 2014.
AFP

China appears to be weakening its war against pollution with a decision to cut costs for consumers of coal-fired power.

On April 8, the State Council, or cabinet, announced it would lower the prices of coal-based electricity for industrial and commercial users "to reduce business cost amid falling coal prices and sluggish production activities," the official Xinhua news agency said.

Wholesale rates will be reduced by an average of 0.02 yuan (U.S. 3.2 cents) per kilowatt-hour, while unit retail prices will drop by 0.018 yuan (U.S. 2.9 cents), Bloomberg News reported.

The government cited a slide in already-depressed coal prices, which touched 459 yuan (U.S. $73.88) per metric ton during the first week of April. Prices were down 12.6 percent since the start of the year, according to the Bohai-rim Steam Coal Price Index.

The price break on power was accompanied by a deep discount in resource taxes for iron ore smelters, reflecting concern for the hardest-hit industrial sectors in a slower-growing economy.

The government also announced a six-month campaign to cut official fees in a bid to spur investment.

Those steps have been followed by broader measures to pump more liquidity into the economy, including a lowering of the reserve requirement ratio for banks.

But the boost for coal-fired power has stuck out like a sore thumb at a time when China has pledged to wage a "war against pollution" and reduce urban smog.

In March 2014, Premier Li Keqiang promised to "declare war against pollution and fight it with the same determination (as) we battled poverty."

Compromising green goals

But the encouragement for coal consumption is likely to compromise that goal.

"This goes against everything that the policy is at this stage, which is to reduce coal use or at least cap coal use," said Mikkal Herberg, energy security research director for the Seattle-based National Bureau of Asian Research.

Last week, the environmental group Greenpeace East Asia released a report showing that 90 percent of China's cities are failing to meet the country's own air quality standards despite "modest improvement" in Beijing and coastal regions last year.

The decision on electricity prices seems unlikely to help.

Cheaper coal-fired power will lower costs for China's construction-related industries, including steel, aluminum and cement, which have previously been targets of conservation campaigns.

In its statement, the State Council stressed that the government would "enact harsher electricity price punishments for high energy consuming and polluting productions."

But the motivation to ease pressures on those same industries remained.

Other recent moves to revive the construction-linked industries have included a reversal of policies against purchases of second homes, which the government had previously discouraged since 2010.

"It's an indicator that they're trying to pull all the levers they can to strengthen the economy and keep it from dipping into a real hard landing," said Herberg.

The moves are also a measure of the government's growing alarm over industrial losses, even as it pushes anti-smog rules and presses Beijing to close all coal-fired power plants by 2017.

Dismal trade figures for March and first-quarter economic growth of 7 percent, the slowest quarterly pace since 2009, have added pressure to ease burdens on energy-consuming industries.

"New normal" growth rates

China has managed to cut coal's dominant share in the country's energy mix from 66 percent in 2013 to 64.2 percent last year, according to the National Energy Administration.

But the government was apparently unprepared for all the implications of economic weakening, despite frequent assurances that slower growth rates are the "new normal."

On Monday, the National Bureau of Statistics (NBS) reported that industrial profits fell 0.4 percent in March and 2.7 percent in the first quarter from a year earlier as earnings declined for the sixth month in a row.

Production in some sectors appears to be ratcheting down too slowly to keep pace with diminishing demand, adding to oversupply and price-cutting trends.

Over 70 percent of China's coal producers are said to be suffering losses after consumption fell 2.9 percent in 2014, posting the first drop in 14 years, according to NBS data.

Major coal miners lost 13.1 billion yuan (U.S. $2.1 billion) in the first quarter as sales volume fell 4.7 percent from a year before, the China National Coal Association said.

Reuters estimates that utilization rates at mostly coal- fired thermal power plants declined from 57.3 percent in 2013 to 53.7 percent last year, falling further to 52.2 percent in the first two months of 2015.

Steelmakers have also been struggling with overcapacity and weak prices for years. Up to half of China's large and mid-sized producers were running at a loss in February, the China Iron and Steel Association said.

While the industry closed 31 million tons of outdated capacity last year, it opened new mills, leaving capacity largely unchanged at 1.16 billion tons, according to the Ministry of Industrial and Information Technology.

With last year's production of 857 million tons, over half the world's steel output, China still has over 300 million tons of surplus capacity, weighing on prices and profits.

Under such circumstances, lower coal-fired electricity prices may come as welcome relief, although it is likely to work against the government's environmental goals.

Huge heavy industry overcapacity

"They're bringing down energy costs for these heavy industries that are under a lot of pressure with huge amounts of overcapacity," said Herberg.

"They're trying to reshape the economy away from those industries, but in the short term, they're still a big part of the economy."

"It means going counter to the broader environmental energy policy, but it's a short-term expediency, trying to prop up the economy," he said.

Herberg also took issue with the government's rationale for lowering coal-fired electricity charges after the State Council argued it would "encourage more environmentally friendly power generation methods to reduce emission and air pollution."

The logic apparently refers to the slight difference in the "on-grid" and retail price adjustments, which could leave something in the system for improvements. But overall, the cuts seem likely to encourage coal-burning and consumption.

"I think they're trying to put a positive spin on the policy that's not really there," Herberg said.

In March, Premier Li Keqiang also signaled more concern for economic growth in the delicate balancing act with energy use and the environment by sharply reducing the government's annual target for energy efficiency gains.

While China reported a large 4.8-percent reduction in energy use per unit of gross domestic product (GDP) for last year, Li set a lower goal of 3.1-percent savings for 2015.

The new annual target would still allow China to meet its five-year goal of a 16-percent improvement in energy efficiency compared with 2010.

In the first quarter, energy efficiency exceeded the target as per-unit consumption fell 5.6 percent from a year earlier, thanks largely to a drop in industrial power use, the NBS said.

But the government's lower goal for the year may take some of the pressure off industry for tougher conservation steps during the remainder of 2015.