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### CHINA'S ENERGY PRODUCTION

Cold comfort

By Ivan Png

FOR more than two weeks, central and southern China have been gripped by severe snow storms. Heavy snow is common in north China in winter. But this year, the confluence of Arctic and south Asian air currents met further south, resulting in unprecedented snowfalls.

The result: China's worst snow disaster in decades, with snow as far south as Guangdong province. The snow and ensuing sleet caused serious breakdowns in transportation and energy supply.

The Beijing-Zhuhai expressway and north-south train service were interrupted at a most critical time - just before the start of Chinese New Year on Thursday. Factories and construction sites shut down just once a year for this period for millions of migrant workers to return to their home towns to be with their families. The breakdown in train services left hundreds of thousands of workers stranded at Guangzhou's railway station.

The weight of the accumulated snow caused power transmission towers to fall and lines to snap. The 4.6 million people of Chenzhou in Hunan province were without electricity for 12 days.

The crisis brought China's top leaders, President Hu Jintao and Premier Wen Jiabao, to the frontlines to lend their support to the suffering people. At Changsha's railway station in Hunan province, Premier Wen promised people they would be home in time for the New Year. He also visited stranded people at Guangzhou's railway stations.

President Hu visited the Datong coal field, a major coal-producing area in Shanxi province, where he went 400m below ground to encourage miners working overtime in freezing conditions and stressed to management and workers: 'Disaster-hit areas need coal and the power plants need coal.'

President Hu then visited the port of Qinhuangdao in Hebei province, through which much of Shanxi's coal is shipped. He urged government officials to give priority to people's needs and interests, and especially to restore transport and electricity services.

President Hu is certainly correct about the importance of electricity to the people and economy. Fuelled by economic growth exceeding 10 per cent per year, China's demand for electricity has boomed. But the construction of electric power facilities has not kept pace with demand. Between 2001 and 2007, consumption rose 20.2 per cent annually, while generating capacity grew by only 18.5 per cent.

China generates over three-quarters of its electricity from coal. Earlier this week, a spokesman for the State Electricity Regulatory Commission, Mr Tan Rongyao, commented on the weather-related power blackouts: 'The shortage of power-generating coal has become enormously acute.'

President Hu and the State Electricity Regulatory Commission are rightly concerned about the supply of coal to electric power plants. However, the essential problem is not indifference among managers and workers in coal mines.

Instead of venturing out to the Datong coal fields, President Hu should have picked up the phone to the National Development and Reform Commission (NDRC). The difficulties the recent snow storms have caused simply highlight a fundamental economic contradiction: China has freed the price of coal but it still regulates the price of electricity.

The trade association of the electric power industry, the China Electricity Council, reported that, between 2006 and 2007, the price of coal for power generation rose by 25 yuan (S\$5) to 304 yuan a tonne. And coal producers have issued a notice of an increase of 30 yuan for this year.

Meanwhile, the NDRC regulates electricity prices to help control price inflation, which is burgeoning. Caught between fixed prices and rising costs, electric power producers are understandably reluctant to expand generating capacity. The figures for capacity growth show the problem is one of long-term investment as well as short-term production.

The NDRC's current policy is a major change from its previous one, when it fixed the price of power-generating coal at below-market levels. Then, producers preferred to export coal and diverted sales away from the domestic electricity sector, resulting in power shortages.

Ironically, having freed the price of coal, China is still faced with power shortages. The locus of the contradiction has simply shifted to the electric power generating industry.

The China Electricity Council has asked the NDRC to peg the price of electricity to the cost of coal. But the NDRC has yet to respond.

Meanwhile, it is reported that electricity supply has been restored throughout southern China, except for Hunan, Jiangxi and Guizhou provinces.

But for how long?

**The writer is professor of information systems, business policy and economics at the National University of Singapore. The opinions expressed here are personal.**