Formulation of Energy Policy in China: Key Actors and Recent Developments

By: Christopher Burke, Johanna Jansson, & Wenran Jiang

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<th>Full Form</th>
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<tbody>
<tr>
<td>CAS</td>
<td>Chinese Academy of Science</td>
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<tr>
<td>CASS</td>
<td>Chinese Academy of Social Sciences</td>
</tr>
<tr>
<td>CDB</td>
<td>China Development Bank</td>
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<tr>
<td>CFELSG</td>
<td>Central Finance and Economic Leading Study Group</td>
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<td>CNOOC</td>
<td>China National Offshore Oil Corporation</td>
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<td>CNPC</td>
<td>China National Petroleum Corporation</td>
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<tr>
<td>COSL</td>
<td>China Oilfield Services Ltd.</td>
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<tr>
<td>CPC</td>
<td>Communist Party of China</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>DRC</td>
<td>Development Research Centre of the State Council</td>
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<td>EIA</td>
<td>Environmental Impact Assessment</td>
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<tr>
<td>ERI</td>
<td>Energy Research Institute</td>
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<tr>
<td>EXIM</td>
<td>China Export Import Bank</td>
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<tr>
<td>FOCAC</td>
<td>Forum on China-Africa Cooperation</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Products</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<tr>
<td>IWAAS</td>
<td>Institute for West Asian &amp; African Studies (under the Chinese Academy of Social Sciences)</td>
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<tr>
<td>LNG</td>
<td>Liquefied Natural Gas</td>
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<td>MFA</td>
<td>Ministry of Foreign Affairs</td>
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<td>MLNR</td>
<td>Ministry of Land and Resources</td>
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<td>MOE</td>
<td>Ministry of Energy</td>
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<td>MOFCOM</td>
<td>Ministry of Commerce</td>
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<td>MOFTEC</td>
<td>Ministry of Foreign Trade and Economic Cooperation</td>
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<td>NELG</td>
<td>National Energy Leading Group</td>
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<td>NOC</td>
<td>National Oil Corporation</td>
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<td>NDRC</td>
<td>National Development and Reform Commission</td>
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<td>NEA</td>
<td>National Energy Administration</td>
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<td>NEC</td>
<td>National Energy Council</td>
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<tr>
<td>NPC</td>
<td>National People’s Congress</td>
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<tr>
<td>PBC</td>
<td>People’s Bank of China</td>
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<td>PRC</td>
<td>People’s Republic of China</td>
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<td>SASAC</td>
<td>State-owned Assets Supervision and Administration Commission</td>
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<td>SEPA</td>
<td>State Environment Protection Administration</td>
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<td>SERC</td>
<td>State Electricity Regulatory Commission</td>
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<td>SOE</td>
<td>State Owned Enterprise</td>
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<tr>
<td>UNOCAL</td>
<td>Union Oil Company of California</td>
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<td>WWF</td>
<td>World Wildlife Fund</td>
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Executive Summary

Currently, China’s energy policy formulation faces a range of challenges. A multitude of actors and institutions are involved in the process, resulting in major difficulties to coordinate policy making and implementation. This, however, applies to Chinese policy making generally and is not specific to the energy area. The following are key institutions in the Chinese energy policy formulation process:

The Communist Party of China (CPC), the supreme political authority in China, has a policy developing role. The State Council, the highest executive organ of the State administration, is responsible for carrying out the principles and policies of the CPC. The National Development and Reform Commission (NDRC) is the foremost government ministry influencing energy policy. The National Energy Administration (NEA) was established and separated from NDRC in 2008 as the new government institution in charge of China’s energy issues. The National Energy Commission (NEC), also formed in 2008, is a senior strategic body which is not involved in day-to-day activities. The State Assets Supervision and Administration Commission (SASAC) has investor responsibility for all China’s more than 150 State-Owned Enterprises (SOEs) but lacks significant influence. In addition, several other government institutions play a more peripheral role in the energy policy formulation process.

In addition to government institutions, several actors are of importance. The country’s large national oil companies (CNPC, Sinopec and CNOOC) have substantive clout due to the fact that they are all former government ministries and that their top executives hold fairly high positions within the CPC. Moreover, research institutes such as the Development Research Centre of the State Council (DRC), the Energy Research Institute (ERI) of the NDRC and several academic research institutes have central roles in the energy policy formulation process. The paper also outlines the roles of China’s financial institutions, such as China Export-Import (EXIM) Bank and China Development Bank (CDB), in the energy sector.

In terms of recent developments, it has been noted that the Draft Energy Law, initiated in December 2007 calling for the re-establishment of an Energy Ministry to coordinate China’s energy bureaucracy, may not be implemented. Instead the National Energy Administration (NEA), in operation since the 30th July 2008, is perceived by many observers to be a compromise between those who wanted a full scale Ministry of Energy and those who wanted to maintain the status quo of diffused energy authority. The NEA will take the lead in the governance of energy. Administratively it is just short of a ministry, yet it is being headed by an official with the full ministerial status, an arrangement which gives the NEA significant additional clout. However, the NEA may not be strong enough to mitigate bureaucratic infighting and coordinate the interests of ministries, commissions and state-owned energy companies.
1. Introduction

Policy making in China, as in many other countries, is diffuse and highly decentralized with a multitude of actors, including the giant Chinese energy State-Owned Enterprises (SOEs) and other government institutions, having often conflicting interests in the decision-making process. Energy policy is no exception and for observers, the Chinese energy policy making process may come across as complex and opaque. Multiple levels of governance are involved, the hierarchy between administrative units is often unclear and the relationships between administrative structures and state enterprises are loosely regulated. The fact that energy is related to the national security interests and concerns of the PRC Government further compounds the issue.

This paper builds on field research conducted in Beijing through November-December 2008. It seeks to address these complexities and to outline the Chinese energy policy formulation process. It endeavours to identify the actors involved, to provide insight into the internal workings of key institutions and the dynamics between them and to make sense of recent developments in the formulation of China’s energy policy.
2. Background

China became a net oil importer in 1993 and its domestic supplies are dwindling as its economic growth continues to experience unprecedented rates. The Chinese government initiated the ‘Going Out’ strategy in 2001, encouraging Chinese companies to participate in the global economy and as a result of domestic production failing to meet the country’s demand, China’s oil companies have over the last decade started to explore opportunities overseas. The invasion of Iraq in 2002 was perceived by many Chinese policy makers as a flagrant attempt by the United States and its allies to strengthen access to oil resources in the Middle East. Furthermore, China National Offshore Oil Corporation’s (CNOOC) aborted bid to purchase Union Oil Company of California (UNOCAL) in 2005 had a profound effect on Chinese stakeholders, an effect that since has been reinforced by the drastic fluctuations in the international price of crude oil.

The above mentioned examples all concern oil supply, which traditionally has been the focus of Chinese energy policy. However, Chinese policy makers increasingly recognize that domestic energy policy requires greater focus on reforms to moderate demand. According to China’s 11th Five-Year Program (2006-10), China aims to reduce energy consumption per unit of GDP with 20 percent from 2005 to 2010 by improving resources, utilizing efficient technology and saving energy. Houser notes that China accounts for 9 percent of global oil demand and 1 percent of known oil reserves.

2.1 General Chinese policy formulation

A great deal has already been written on the fragmentation of public institutions in China. Rationalist perceptions of the Chinese Government as a monolithic unitary actor assume high levels of unity and the leadership’s capacity to impose their positions across the entire state apparatus. This rationalist approach assumes Chinese leaders enjoy complete knowledge of alternative solutions and can calculate the costs and benefits of each option’s consequences. Such perceptions remain common in Western popular media, but are often simplistic in nature and provide little insight into understanding the complexities of the operations of the Chinese Government today.

Lieberthal and Oksenberg developed the model of ‘fragmented authoritarianism’ at the end of the 1980s to explain the dynamics of decision making within the Chinese government, taking into account power struggles among bureaucratic units of the Chinese state. Speed suggests that the three primary challenges the Chinese government is facing in the effective implementation of policy are firstly the multiples tiers of government, secondly the inability to effectively institute reforms and thirdly the lack of staff with the necessary expertise. Shirk describes the decision making process of the Chinese Government at state, provincial and municipal levels in terms of
conflict amongst leaders and their networks of clients. The formulation of energy policy does not appear to be an exception.

### 2.2 Chinese Energy policy formulation

The Chinese Government is working hard to address the procedural challenges within energy policy formulation outlined in the introduction. One such attempt was the Draft Energy Law initiated in December 2007, calling for a more environmentally friendly energy policy as well as a more market oriented pricing system for energy. The draft also pushed for the re-establishment of the Energy Ministry that was disbanded in 1993. The draft was published on the website of the Office of the National Energy Leading Group in order to solicit comments from the public, and thereafter the State Council and high level Chinese officials approved the draft before it was released.

As of January 2009, the implementation of the Draft has only been partially successful. While the 1st January 2009 implementation of a consumption fuel tax on gasoline and diesel fuel may be interpreted as making energy more responsive to the market, the absence of an Energy Ministry is evidence of partial failure. It has been argued that an independent and strong Energy Ministry is crucial to China’s long-term strategic development. However, those with vested interests in the status quo have sufficient influence to thwart legislation they perceive to be detrimental to their interests.

Downs notes that the Chinese Government’s inability to effect such necessary changes clearly reflects the limited capacity of the relevant institutions and should not be understood as a conscious decision by Beijing to shirk its global responsibilities. This challenge, however, does not only apply to the energy sector but is closely tied to broader issues of governance and the country’s entire political economy.

The Chinese Government is currently challenged to develop institutional structures to underpin market reforms. This is increasingly important as the growing influence of corporate interests requires better policy coordination and regulatory systems. Moreover, Xu notes that it is imperative to strengthen the separation between policy-making, regulating and policy implementing institutions.

The Draft Energy Law and other institutional developments can only be understood in light of the policy they implement. The grand governing policy guiding China’s current energy security issue is the “Outline of the 11th Five-Year Plan for National economic and Social Development”. Formulated by the State Council in 2006, it directs China’s developmental path through 2010. Its content is mandated by the “Proposals for Formulating the 11th Five-Year Plan for National Economic and Social Development”, drafted and passed by the 16th Central Committee of the Communist Party of China (CPC) in 2005.

With respect to the energy issue, the CPC Proposals call for a new “economic development mode” based on renewable and clean energy development, energy conservation and environmental protection. These guiding principles have all been incorporated into Chapter 6 of the “Outline – Building a Resource-conserving and Environment-Friendly Society”.
Energy policy is a very sensitive issue and few Chinese observers have written anything substantial on policy formulation. Information on the topic is scarce. Zha Daojiong at the Centre for International Studies at Peking University and Yang Guang at the Institute for West Asian and African Studies at the Chinese Academy of Social Sciences have done a great deal of work on the international implications of China’s energy policy.

A limited number of international observers have contributed their thoughts and analysis to this issue. Erica Downs at the Brookings Institute has written a number of prominent pieces focused on contemporary developments in the formulation of China’s energy policy. Philip Andrews-Speed at the Centre for Energy, Petroleum Mineral Law and Policy at the University of Dundee, Scotland has also written extensively on this topic and provides a thorough historical perspective. Christian Constantin is another scholar who has also written on this topic. Wenran Jiang at the China Institute at the University of Alberta, Canada, is a well recognized expert in this field and has made regular contributions to media reports on this issue.
3. Structures of Governance

3.1 Communist Party of China (CPC)

The Communist Party of China (CPC) headed by President Hu Jintao is the supreme political authority in China and develops policies in accordance with the Charter of the CPC and the Constitution of the People Republic of China. The Party has over 70 million members - almost 1 in every 15 adults in China. The CPC is led by the 9 member Standing Committee, or Politburo, that guides policy and monitors the implementation of laws and development plans set forth by the National People’s Congress (NPC), held every five years. The last National Congress was held in October 2007.

The policies developed by the CPC are executed by the administrative branch of government headed by the State Council (outlined below). Relations between the party and the administration are extremely close with many government officials and SOE executives holding positions within the CPC, particularly at senior levels.

Following the introduction of economic reforms under Deng Xiaoping in 1978 and Jiang Zemin’s subsequent focus on economic growth and development, some observers have suggested that there have been significant improvements in overcoming the factionalism that characterized Chinese politics in the past. There is an increasing degree of intra-party democracy and strengthening of the role of the People’s Congress in addressing the enormous challenges associated with internal pluralism. Economic growth remains a priority for the CPC with special attention to addressing domestic disparities in wealth.

3.2 The State Council

The State Council headed by Premier Wen Jiabao is the highest executive organ of state power and the highest organ of state administration. It oversees over 80 ministries, bureaus and other institutions and is responsible for carrying out the principles and policies of the CPC, as well as the regulations and laws adopted by the NPC. The State Council consists of the premier, four vice-premiers, five state councillors and the secretary-general. The State Council meets once a month and its standing committee meets twice a week. The vice-premiers and state councillors are nominated by the premier and appointed by the president with approval from the National People’s Congress (NPC). Naughton has suggested that the State Council is increasingly dominated by politicians and less by technocrats.

The Information Office of the State Council has described the strengthening of international cooperation as a key component of the country’s energy reform laid out in its first White Paper
on national energy strategy in December 2007. The White Paper explains that the government will increasingly provide support for direct overseas investment by major state energy companies and further open its energy industry, forging closer ties with the rest of world.
Figure 1: “China’s New Energy Administrative Structure”

National People’s Congress

State Council

National Energy Leading Group (NELG)

NELG transformed into NEC.

National Energy Commission (NEC)

NEA reports directly to the State Council on substantive matters.

Interactive relationship: NDRC retains responsibility for NEA’s logistics.

National Energy Administration (NEA)

NDRC’s responsibilities over energy production, international cooperation and scientific research

NDRC’s other statutory powers

The below units have been merged into NEA
- Nuclear Power Management Office, Commission of Science, Technology & Industry for National Defence
- NDRC’s responsibilities over the State Electricity Regulatory Commission
- Other related energy bodies

Source: Wenran Jiang
3.3 The National Development and Reform Commission (NDRC)

The National Development and Reform Commission (NDRC) is the foremost government institution influencing energy policy. Formerly called the State Planning Commission and State Development Planning Commission, the NDRC is a macroeconomic management agency directly under the State Council with broad administrative and planning control over the economy. At the time of writing, the NDRC, headed by Zhang Ping, is heavily preoccupied with the implementation of the Government’s economic stimulus project.

The NDRC has 26 departments and bureaus with over 1,000 staff focusing on economic sectors including industry, transportation, energy, environmental protection, natural resources, social development, foreign enterprises, and trade and employment. It is known as a ‘super ministry’ and it usually appears to mirror the wishes of the State Council and is often referred to as the ‘mini State Council’.

In March 2008, further efforts were made to focus the NDRC on macro-economic matters exclusively and move away from the micro-managing and detailed project approvals, such as drafting national economic programs, establishing industrial and investment policies, spearheading reforms, control price levels, and participating in fiscal and monetary policy.

Erica Downs suggests the NDRC has been at the forefront of opposition to the creation of a Ministry of Energy (MOE) which would deprive the NDRC of a substantial portion of its portfolio, important tools of macroeconomic control along with the state-owned energy companies. This would disrupt the status quo and limit the NDRC’s direct access to China’s leadership. The NDRC has an important stake in the development of energy policy which it now shares with the recently established National Energy Administration (NEA, outlined below) which will manage coal, oil, electricity and gas. However, key areas such as price setting remain the responsibility of the NDRC’s pricing department. The major responsibility for energy conservation has been taken by the NDRC’s department of resource utilization and conservation.

3.4 National Energy Administration (NEA)

The establishment of the National Energy Administration (NEA) and the National Energy Council (NEC, outlined below) was announced during the March 2008 National People’s Congress. The NEA evolved from the Energy Bureau in the NDRC. It is intended to take the lead in the governance of energy policy and is perceived by many to be a compromise between those who wanted a full scale Ministry of Energy, as outlined in the Draft Energy Law of 2007, and those who wanted to maintain the status quo of diffused energy authority.

The NEA’s head Zhang Guobao, who holds a ministerial position, is a very prominent government official and a well recognized energy expert. He is still the vice-minister of the NDRC and was previously responsible for the Commission’s Energy Department. However, the NEA itself has the status of a vice ministry, and the appointment of an official of ministerial ranking to head a unit of vice ministry ranking is unique in Chinese bureaucratic structures. By means of this appointment, the Chinese leadership has chosen to allocate more weight to the NEA than to a regular vice ministry and the fact that such an arrangement has never been seen before indicates the extent to which the restructuring of the Chinese energy bureaucracy is a complex
phenomenon.

The former director of the NDRC Energy Research Institute, Zhou Dadi, has described the establishment of the National Energy Administration under the supervision of the NDRC as a step towards setting up an independent energy ministry under the State Council that would eventually have equivalent authority to the NDRC, an argument which is supported by the symbolically significant appointment of Zhang Guobao. Several informed energy industry observers have suggested that the government does, by means of the establishment of the NEA, in fact appear to be attempting to establish a fully fledged energy ministry.

The NEA was initially under the jurisdiction of the NDRC as it commenced operation on the 30th July 2008. The NEA subsequently moved out of the NDRC and established its own office. Since January 2009 it has been independent of the NDRC and has established its own Foreign Affairs department to manage its external relations. However, although the two organisations are in the process of institutional separation, there is still very much interaction between them since they share leadership and personnel to a great extent.

The other two deputy directors of the NEA are Zhao Xiaoping and Sun Qin, whose positions are at vice-minister level. The mandate of the NEA is to formulate energy development strategies, draft energy regulations and policies. Furthermore, the Bureau manages the oil, gas, coal and power (including nuclear) sectors. Interestingly, the structure of the NEA was not announced until four months after it was created. It currently comprises nine departments focused on the following areas: power/electricity, oil and gas, coal, renewable and new energy, energy saving, science and technological equipment, industry strategy development, policy and regulation and international cooperation.

One informed industry observer suggested that the department for international cooperation is different from other ministries and bureaus in that it has two key divisions: one to deal with routine foreign affairs including international conferences and visits while the other is focused on international policy. The respondent also suggested that the NEA appears to be more ‘service minded’ than other energy related government institutions, citing an example of where the NEA called a group of companies and NGOs to announce and explain the functions of the institution.

The NEA was originally to be staffed by 250 employees. However, it currently comprises of only 112 personnel. Chinese media reports have already speculated that the institution may face the problem of “too many generals and not enough soldiers” as half of the positions are for deputy department head level and above. The NEA is clearly stronger than its predecessor, but not yet strong enough to mitigate the bureaucratic infighting that undermines energy decision-making. Furthermore, it lacks the necessary authority to coordinate the interests of ministries, commissions and state-owned energy companies. Downs notes that previously, the primary frustration of Energy Bureau officials was that the energy companies regularly circumvent the authority of the bureaucratic institutions and meet directly with China’s senior leadership.

The NEA’s independence is limited by the fact that the key tools it needs to effectively manage the energy sector remain in the hands of the NDRC. As mentioned, the NEA does not possess the authority to set energy prices. Zhang Guobao has described the issue of who would end up with the power to determine energy prices as a subject of “constant dispute” during the
bureaucratic reorganization.\textsuperscript{48}

Downs further notes that the “NEA can make suggestions about energy price adjustments and should be consulted by the NDRC on any proposed changes, the shots are still being called by the NDRC (and ultimately the State Council, whose approval is needed for any major energy price changes). […] The power to set prices is one of the NDRC’s main instruments of macroeconomic control.”\textsuperscript{49} Downs further notes that with no pricing power, the NEA has little choice but to resort to administrative measures to achieve an objective that would be more effectively realized by raising and ultimately liberalizing electricity prices.\textsuperscript{50}

### 3.5 National Energy Commission (NEC)

The National Energy Commission (NEC) has recently been established. It was transformed from the National Energy Leading Group (NELG) that was established to improve policy formulation and coordination and was headed by Premier Wen Jiabao.\textsuperscript{51} The structures of the new National Energy Commission are now in place and its personnel is being recruited. When the establishment of the NEC was announced in March 2008 together with the NEA, there was speculation that the NEC would be an extremely high level government institution almost on par with the NDRC. It is now a senior strategic body focusing on the formulation of national energy strategy and the deliberation of key issues in energy security and energy development, and is not involved in day-to-day activities. Instead, the NEA carries out the day-to-day policy implementation functions of the NEC, and the two institutions thus have an interactive relationship.

### 3.6 The State-owned Assets Supervision and Administration Commission (SASAC)

The State-owned Assets Supervision and Administration Commission (SASAC) was established in June 2003 and is the technical owner of all China’s State Owned Enterprises (SOEs).\textsuperscript{52} On behalf of the central government, SASAC has investor responsibility for state-owned assets. It was established to speed up the restructuring of these and to push forward reform of SOEs.\textsuperscript{53} SASAC is charged with managing the assets of the SOEs, improving corporate governance, participating and guiding the direct financing of enterprises, and promoting the strategic adjustment of the state-owned economic structure and layout. As the majority shareholder, the institution currently oversees more than 150 SOEs including CNPC, Sinopec and CNOOC.

Despite SASAC’s importance as the owner of all SOEs, the institution’s power is extremely limited. SASAC does for example not have representatives on the ground in the offshore operations of the SOEs,\textsuperscript{54} it does not have control over budgets and it does not have the authority to collect earnings from the SOEs. This is instead the responsibility of the Ministry of Finance.\textsuperscript{55}

In January 2008, SASAC announced the release of CSR (Corporate Social Responsibility) guidelines that encourage SOEs to take responsibility for stakeholders and the environment in addition to making a profit.\textsuperscript{56} This is the first initiative of this nature to be introduced by a ministerial agency in China.\textsuperscript{57} By means of the Guidelines, SOEs are required to report their activities and provide regular updates and information on their CSR programs and must also
publicize and report their activities to stakeholders and society in general.\textsuperscript{58} Global Reporting Initiative notes that eleven centrally-administered SOEs already release sustainability reports and three SOEs produce reports using the Guidelines.\textsuperscript{59}

3.7 Additional Government Institutions

In addition to the NDRC and the NEA, there is a wide range of government institutions concerned with the formulation of China's energy policy.

3.7.1 The Ministry of Finance

The Ministry of Finance administers macroeconomic policies and the national annual budget. It also handles fiscal policy, economic regulations and government expenditure for the state and records and publishes macroeconomic data on China's economy. The Ministry of Finance regulates China's 'Three Giants', the oil companies CNPC, Sinopec and CNOOC, in the following areas:

1. Set the rate for windfall tax
2. Has the power to grant value-added tax rebate on crude oil and fuel imports as a way to subsidize their domestic refinery losses
3. Set the rate for corporate income tax
4. Set the rate for resources taxes on oil and gas
5. Has the power to grant tax amnesty on equity shares sale (e.g.: when CNPC intends to sell part of its shares to its subsidiary PetroChina)
6. Administer a social-security fund to which the 'Three Giants' listed subsidiaries, in the event of issuing new shares in the stock market, must contribute certain percentage of their listing proceeds
7. Grant funding support for technical innovation to Chinese corporations together with the Ministry of Science and Technology. In 2003, 30 (out of a total number of 208) funded projects were from the petroleum and chemical sectors.

The Ministry of Finance does not handle regulation of the money markets or interest rates. These areas are instead governed by the People’s Bank of China (PBC). Moreover, a tax on fuel consumption approved by the NPC in 1999, which came into force on the 1\textsuperscript{st} January 2009, is to be administered by the Ministry of Finance.\textsuperscript{60}

3.7.2 The Ministry of Commerce (MOFCOM)

The Ministry of Commerce (MOFCOM), formerly known as the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), is guided by the State Council and is among the more prominent Chinese ministries. MOFCOM is responsible for both domestic and foreign activities including the formulation of policies on trade, export and import regulations, planning, foreign direct investment valued at over US$ 30 million, consumer protection, market competition, the provision of incentives for qualified domestic corporations to invest abroad as well as negotiation of bilateral and multilateral trade agreements.

MOFCOM is also responsible for the management of Chinese contract workers going abroad,
both employees of SOEs and of private Chinese companies, thus including the vast majority of Chinese workers contracted to work for Chinese energy companies in Africa or elsewhere.

As decisions regarding China’s foreign trade and economic relations with foreign countries are often considered politically less sensitive, MOFCOM is often perceived to have a higher degree of control over these decisions, which often have a strong domestic linkage. Most of the policy-making decisions are handled by the powerful Central Finance and Economic Leading Study Group (CFELSG).  

3.7.3 The Ministry of Land and Resources (MLNR)

The Ministry of Land and Resources (MLNR) is responsible for the planning, administration, management, preservation and exploitation of natural resources, including land, mineral and marine resources. It is a key ministry regulating the operations of companies within China. However, its regulatory power through statutory interpretation of PRC’s relevant statutes and regulations is restricted to domestic activities. The MLNR is responsible for issuing permits for upstream oil and gas activities and its Strategic Research Centre of Oil and Gas Resources maintains 50 researchers.

3.7.4 Ministry of Environmental Protection

The transformation of the State Environment Protection Administration (SEPA) to Ministry of Environmental Protection was announced in March 2008. While the Ministry has not yet been given direct control of local environmental officials, it is expected to become increasingly important as environmental issues gain prominence. The energy sector has a considerable impact on the environment as it continues to use a high proportion of coal. This, combined with the relative backwardness of energy production, conversion and energy using technology as well as the rapid growth of road transport, makes China’s energy sector an environmental challenge.

3.8 Prospects for an Energy Ministry

Once established, a fully fledged Energy Ministry is expected to have the “functions of the NDRC, the State-Owned Assets Supervision and Administration Commission (SASAC), the Ministry of Land and Natural Resources, the Ministry of Water Resources and the State Electricity Regulatory Commission (SERC), and would guide all state-owned energy conglomerates.” Many observers suggest the establishment of such a ministry is inevitable, but estimations vary as to when this could become a reality.
4. Research Institutions

4.1 Development Research Centre of the State Council (DRC)

Government research institutions regularly collaborate with one another and are playing an increasingly active role in both the identification of problems and the development of solutions within the formulation of policy across a broad range of areas including energy.

4.1 Development Research Centre of the State Council (DRC)

The Development Research Centre of the State Council (DRC) is the primary research institution directly accountable to the State Council. It is a policy research institution that conducts research on macro, strategic and long-term issues related to national economic and social development. It also provides policy suggestions and consulting advice to the CPC Central Committee and the State Council. The DRC is headed by Zhang Yutai at full ministerial level and is comprised of approximately 25 research departments, centres and institutes including the International Cooperation Department. The DRC’s Industry Department works particularly with energy issues and has for example conducted research in collaboration with the World Bank.

4.2 Energy Research Institute (ERI)

Among the key research institutions concerned with the formulation of energy policy is the Energy Research Institute (ERI) of the NDRC which employs approximately 70 researchers. ERI conducts energy policy research and provides important input – data, feasibility studies and reports – for the NDRC in formulating national energy policy. Two of its most influential research topics in recent years are “China’s Medium-to-long term Energy Strategy” and “Structure of China’s National Energy Law”. ERI is an extremely broad research institution covering a broad range of issues with a particular focus on downstream production. It also advises NDRC on planning and strategies.

4.3 Academic research institutions

In addition to the above mentioned research institutions situated within various government institutions such the as DRC in the State Council and the ERI in the NDRC, there are a group of very large influential research institutions.
4.3.1 The Chinese Academy of Science (CAS)

The Chinese Academy of Science (CAS) was established in 1949. It is the peak scientific science and technology research institution in the country with 37,000 researchers working in over 70 different research institutes, including the Bureau of Science and Technology for Resources, Guangzhou Institute of Energy Conversion and the Environment and International Cooperation. CAS reports to the State Council and aims to establish platforms for research and development in science and technology in cooperation with domestic and international universities as well as research and commercialization institutions for technology and non-incorporated research units.

4.3.2 The Chinese Academy of Social Sciences (CASS)

Another very prominent but broader research institution is the Chinese Academy of Social Sciences (CASS) which was established in May 1977. CASS is also directly under the State Council and is the highest academic research organization in the fields of humanities and social sciences with 32 research institutes, 3 research centres, a graduate school and over 3,000 full time researchers. CASS informs policy formulation particularly with regards to security policy, of which energy forms an important part. Professor Yang Guang, Director of the CASS’ Institute of West Asian and African Studies (IWAAS), is as mentioned in section 2.2 a well published scholar on energy issues.

4.3.3 China’s Petroleum Universities

Among China’s 8,750 universities, there are a number focused exclusively on energy. The China University of Petroleum with campuses in Beijing and Shandong has 30,000 students; the Daqing Petroleum Institute in the oilfields of Heilongjiang in north western China has 20,000 students and the Southwest Petroleum Institute in Chengdu has 23,000 students. These institutions were initially established and operated by the CNPC and continue to have very close links to the petroleum corporations. Their staff maintains strong contacts with China’s major energy companies and regularly provides advice and expertise.
5. Corporations

From the early 1950s, Chinese government ministries were established around particular heavy industries and the majority of energy production was conducted by government institutions. As government began to restructure ministries into corporations in the 1980s, company leaders fought to retain positions and maintain leverage over policymaking. In 1988, the Ministry of Petroleum was transformed into the China National Petroleum Corporation (CNPC) to manage upstream activities and Sinopec which was to manage downstream activities. As of today the relationship between energy companies and the government is loosening, although very gradually, and the energy sector remains subject to a very high level of state control and ownership both in upstream and downstream sectors.

The corporations also have considerable expertise and access to significant capital. The main Chinese companies collect dividends on the subsidiaries listed in Hong Kong and use these profits to offset losses elsewhere. Houser suggests the “resulting accumulation of such undisciplined capital shapes the overseas investment strategies of these firms.” Zhao argues that China’s oil corporations exert influence on government to support them to go abroad in the name of energy security.

Xu notes that the top managers of the corporations have the trust of the party and enjoy extensive personal networks with party and government officials at the top levels of government, including the Central Committee of the Communist Party of China. Downs argues that the corporations have the capacity to advance corporate interests at the expense of national ones and cites several examples of oil and power generating companies reducing output to pressure the government to raise downstream prices which have fallen behind market-determined prices of crude oil and coal.

Despite the Government's desire for coordination, the ‘Three Giants’, CNPC, Sinopec and CNOOC, both cooperate and compete with each other, domestically as well as abroad. Competition amongst the energy companies has led to excessive investment in power generation and distribution causing inefficiencies and competition among regulators which has weakened the state's ability to manage the energy sector. The disorganization of China’s energy bureaucracy stands in sharp contrast to the activism of its state-owned energy companies.

Houser notes that the public listing of the subsidiaries of China’s ‘Three Giants’ on the Hong Kong stock exchange in 2000-2001 “added a new element of investor scrutiny and profit discipline to China’s oil sector”. In terms of this, there are considerable differences between private companies and SOEs as well as between small and large companies. According to
several well informed observers, the large Chinese petroleum companies consider themselves increasingly international and acknowledge the need to adhere to international norms, rules and procedures.85

The following sections briefly introduce the main features of China’s ‘Three Giants’.

5.1 China National Petroleum Corporation (CNPC)

CNPC is a state-owned energy company and China’s largest integrated oil and gas company. Its businesses include oil and gas operations (both upstream and downstream), oilfield services, engineering and construction, petroleum material and equipment manufacturing and supply, capital management, finance and insurance services as well as new energy operations. CNPC has oil and gas assets in 30 countries and its products are sold in 69 countries worldwide.

PetroChina Co. Ltd., CNPC’s largest listed subsidiary, is responsible for CNPC’s domestic operations in the areas of oil and gas exploration and development; oil refining and petrochemical production; marketing; pipeline transportation; and natural gas sales and utilization. PetroChina was publicly listed respectively in Hong Kong and US New York in April 2000, with CNPC holding 90% of its shares.

CNPC’s global business is composed of three sectors:

Oil and gas operations: Oil and gas exploration development and production; construction of pipeline, storage and transportation facilities; natural gas marketing and liquefied natural gas (LNG) projects; refining, marketing, trading and transporting crude oil and oil products; as well as production of base chemicals, petrochemicals, and fertilizer.

Field services, engineering and construction: Geophysical prospecting, well drilling, well logging, field surface engineering and pipeline construction.

Petroleum equipment: Manufacturing and supply of oil and gas exploration equipment, drilling and production equipment, storage and transportation equipment, refining and chemical equipment and oilfield chemicals.

By January 2009, CNPC produced 2.75 million barrels of crude oil per day and 5.6 billion cubic feet of gas per day.86
5.2 Sinopec

Sinopec is the largest energy and petrochemical company in China and the largest refiner and distributor of gasoline, diesel, jet fuel and most other major refined products in China and in Asia. It is also China’s second largest producer of crude oil and natural gas. The scope of its business includes oil and gas exploration and production; extraction, pipeline transmission and marketing; oil refining; production, marketing, storage and transportation of petrochemicals, chemical fibres, chemical fertilizers and other chemical products; import/export agency of crude oil, natural gas, refined oil products, petrochemicals, chemicals and other commodities and technologies; as well as research, development and application of technology and information. Sinopec Group, the largest shareholder of Sinopec Corporation, is a large petroleum and petrochemical group incorporated by the state in 1998 based on the former China Petrochemical Corporation. Funded by the state, it is a state authorized investment arm and state-owned controlling company.

Sinopec Corporation’s production and supply statistics for 2007 are as follows:

- Oil production: 291.67 million barrels
- Gas production: 2.826 billion cubic feet
- Oil reserves: 3.02 billion barrels
- Gas reserves: 63,308 billion cubic feet

5.3 China National Offshore Oil Corporation (CNOOC)

CNOOC is one of the largest state-owned oil companies in China and the largest offshore oil and gas producer with a total of 51,000 employees. It has six business sectors which include upstream, midstream and downstream oil and gas exploitation; technical services, chemical and fertilizer production; refining, LNG and power generation; financial services; as well as logistics and new energy development. CNOOC has four listed subsidiaries: CNOOC Ltd., China Oilfield Services Ltd. (COSL), CNOOC Engineering Ltd., and China BlueChemicals. CNOOC Ltd. is the subsidiary of CNOOC engaged in exploration, development, production and marketing of offshore crude oil, natural gas and other petroleum products. At the end of 2006, CNOOC Ltd. had 50 oil and gas fields in production in 10 countries, 23 independently operated and 27 operated in partnership with international oil companies. It has 3,288 employees.

As of the 3rd quarter of 2008, CNOOC Ltd. production statistics were as follows:

- Oil production: 549,589 barrels per day.
- Gas Production: 424 million cubic feet per day.

As of the end of 2007, CNOOC Ltd.’s reserves were as follows:

- Oil Reserves: 2.6 billion barrels, comprising 1.56 billion barrels of crude oil and condensate.
- Gas Reserves: 6,222.8 billion cubic feet of natural gas.
6. Financial Institutions

The Chinese Government provides additional support for the National Oil Companies’ (NOC) direct overseas investments in accordance with the December 2007 White Paper on national energy strategy. The financial aspect of such support is delivered in the form of development assistance. The China Development Bank (CDB) and China Export Import (EXIM) Bank are the main institutions responsible for overseeing and administering this assistance. The activities of these two institutions are outlined further below.

Moreover, the Industrial and Commercial Bank of China (ICBC) signed an agreement on the 18th March 2008 with South Africa’s Standard Bank to set up a US$ 1 billion commodities fund. The fund will focus on certain investment opportunities in Africa and China, especially primary mining and energy industries.

However, resulting from their access to substantial revenue, the ‘Three Giants’ (CNPC, Sinopec and CNOOC) enjoy a high level of financial independence. A senior academic focused on financing in the energy sector explained to the research team that the oil corporations usually finance the bulk of their overseas investments themselves.

6.1 China Development Bank (CDB)

It is expected that the Forum on China-Africa Cooperation (FOCAC) promise of US$ 5 billion fund for investment in Africa through the China-Africa Development Fund will be capitalized by China Development Bank. For example, a power plant is currently being constructed in Ghana by Shenzhen Energy Investment Corporation. The project, worth US$ 143 million, is being financed by The Fund.

6.2 China Export-Import (EXIM) Bank

China EXIM Bank is financing a large number of energy related projects around the world. It is also the primary Chinese bank active in Africa. According to China EXIM Bank’s loan criteria, projects funded by the bank are to be carried out by Chinese enterprises as contractors or exporters, and at least 50 percent of equipment, material and technology must be procured in China. However, this practice of ‘tied aid’ is certainly not unique to Chinese concessional finance. Sautman and Hairong notes that “[a]bout 80 per cent of US grants and contracts to developing countries must be used to buy goods and services from US firms and NGOs. Some 90 per cent of Italy’s aid benefits Italian companies and experts; 60-65 per cent of Canada’s aid and much of that of Germany, Japan and France is tied to purchases from those states.”
### 6.2.1 Examples of China EXIM Bank energy initiatives worldwide

Below is a selection of examples of where China EXIM Bank has financed energy related projects in different parts of the world.

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belarus</td>
<td>2007</td>
<td>Loan for the reconstruction of the TETS-2 heat and power plant in Minsk.</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>2007</td>
<td>Financing of the expansion of the old Boali power station by installing two new turbines. The work is to be carried out by the China’s Xiang Kiang Electric Corporation (possibly a condition for granting the loan).</td>
</tr>
<tr>
<td>Ghana</td>
<td>2007</td>
<td>Loan to the government of Ghana for the construction of the Bui hydroelectric project, on the condition that Sinohydro is a contractor to the project.</td>
</tr>
<tr>
<td>Nigeria</td>
<td>2006</td>
<td>A 12.8 billion Yuan loan to CNOOC to fund an oil project in Nigeria.</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>2006</td>
<td>A US$ 25 million loan agreement with Turkmenistan's State Bank for Foreign Economic Affairs was signed in May 2006 for increasing gas production from the Daulatabad-3 field, the largest in Turkmenistan. The loan was to finance purchases and supplies of drilling equipment, lifting machines and designing construction of water-cooling and softening facilities and was offered as part of the framework agreement signed in April 2006 between China and Turkmenistan for cooperation in the oil and gas sector (possibly for boosting future crude oil imports from Turkmenistan to China).</td>
</tr>
<tr>
<td>Brazil</td>
<td>2005</td>
<td>A US$ 1.3-1.4 billion investment in the construction of the 1,000 kilometre Gasene gas pipeline link between Brazil's north-eastern and south-eastern regions. The link is considered important to allow expansion of gas supply from the Campos basin into the northeast region. The construction work was carried out by Sinopec (possibly a condition for granting the loan).</td>
</tr>
<tr>
<td>PetroChina</td>
<td>2003</td>
<td>A line of credit of up to 10 billion Yuan was offered to PetroChina to help finance its overseas oil and natural gas exploration from 2004 to 2009.</td>
</tr>
</tbody>
</table>
6.3 Chinese financial institutions and CSR

Those of China’s banks that are expanding overseas are often seeking to comply with international standards. For example, China Development Bank released its 2007 CSR report in October 2008 focusing on compliance with regulations to curb lending to energy-intensive and highly-polluting industries. The principles are a voluntary set of guidelines based on International Finance Corporation (IFC) policies to incorporate social and environmental issues in project financing.97

Furthermore, the then State Environment Protection Administration (SEPA) (now Ministry of Environmental Protection) signed a deal in January 2008 with the IFC introducing the Equator Principles, a financial industry benchmark for determining, assessing and managing social & environmental risk in project financing to China.99 China EXIM Bank now seeks to adopt these principles. The bank publicly released the 2007 updated environmental guidelines entitled “Guidelines for Environmental and Social Impact Assessments of the China Export and Import Bank’s (China EXIM Bank) Loan Projects” in July 2008 replacing a November 2004 version that was first publicly disclosed in April 2007. The new guidelines were developed in accordance with China’s Environmental Impact Assessment (EIA) Law, the Environmental Protection Law and the Environmental Management for Construction Project Ordinance, drawing on the experience of international banks.100

Moreover, the World Wildlife Fund (WWF) and the People’s Bank of China released a report in September 2008 on sustainable development and China’s banking industry. The report suggests Chinese banks establish environmental reporting, assessment, management and risk evaluation systems to promote sustainable development. It the first high-level report on sustainable development in China’s banking sector.101
7. Concluding Remarks

China’s energy policy formulation is fragmented and continues to face a range of challenges resulting in price inefficiencies and energy shortages. The process of formulating energy policy is heavily centralized within the central leadership which is acutely aware of the need to improve coordination and accountability to address the issues associated with effective policy formulation.

A myriad of actors exercise influence in the development and implementation of energy policy, and effecting the necessary changes has proved problematic due to the sheer scale of the industry and the sensitivities involved. In the absence of models to emulate or draw upon, the government is operating in unchartered waters and continues to experiment with different systems to streamline energy policy formulation while ensuring to take all relevant actors into consideration.

The Chinese government is conscious of the need for international engagement on the development and implementation of energy policy as its energy industry grows and becomes increasingly globalized. However, as the Chinese policy formulation process is considered to have very particular historical background, logic and implementation mechanisms, the Chinese leadership remains somehow wary of external intervention that might restrain development or otherwise prove detrimental. Objective discussion, opinions and suggestions are however welcome. Certain institutions and sections of China’s energy industry will be considerably more receptive than others and an improved understanding of the complex dynamics involved will be the first step towards meaningful engagement on international cooperation.
Endnotes

14 Interview, Beijing, 05-11-2008.

19 People’s Daily (2005). “CPC Central Committee Approves Proposals for Formulating 11th Five-year Plan.”, Published 11-10-2005. The Preamble of the Outline reads as follows: “The Outline of the 11th Five-Years Plan for National economic and Social Development was formulated in accordance with the CPC Proposals for Formulating the 11th Five-Year Plans for National Economic and Social Development.”

20 For a brief outline of the policy, please refer to the NDRC’s website at [http://en.ndrc.gov.cn/hot/t20060529_71334.htm](http://en.ndrc.gov.cn/hot/t20060529_71334.htm).

21 For example:
For extensive list of publications, see [http://sis.ruc.edu.cn/teacher/resume/zha_e.pdf](http://sis.ruc.edu.cn/teacher/resume/zha_e.pdf).

22 For example:


37 Interviews, Beijing, November 2008.
40 Interview, Beijing, 20-11-2008.
41 Interview, Beijing, 20-11-2008.
45 Ibid.
46 Ibid.
47 Ibid.
48 Ibid.
49 Ibid.
50 Ibid.
54 Interview, Beijing, 20-11-2008.
62 -For the fuel consumption tax regulation, see Ministry of Finance (2008). “Circular on Budget...


65 Interview, Beijing, 20-11-2008.


68 Interview, Beijing, 19-11-2008.


74 Ibid. page 24.


77 Ibid.


85 Interviews, Beijing, November 2008.
87 For further info, please see http://english.sinpec.com.
91 Interview, Beijing, 24-11-2008.
Profile of the Centre for Chinese Studies, University of Stellenbosch

The Centre for Chinese Studies (CCS) is the first institution devoted to the study of China on the African continent. The CCS promotes the exchange of knowledge, ideas and experiences between China and Africa. As Africa’s interaction with China increases, the need for greater analysis and understanding between our two regions and peoples grows. The Centre seeks to fulfill this role.

Housed at Stellenbosch University in the Western Cape Province, the CCS is a joint undertaking between the Governments of South Africa and the People’s Republic of China having been agreed to at the South Africa – PRC Bi-national Commission held in June 2004. The Centre conducts analysis of China-related research to stakeholders in Government, business, academia and NGO communities. The Centre also delivers lectures to academic and business audiences at the University of Stellenbosch, the University of Stellenbosch Business School (USB) and other local universities.

The CCS hosts visiting academics and Government officials within the China Forum that provides a platform for discussion and debate on China-Africa related subjects. China Forum events are often hosted in collaboration with other institutions.

The CCS has co-operative linkages with key Chinese and African universities and institutions pursuing both research collaboration and exchange undertakings.

The Centre for Chinese Studies is also home to the Confucius Institute, the first of its kind in South Africa. Through the Confucius Institute, the CCS is projecting Chinese language and cultural studies in the Southern Africa region. The CCS thus serves as the foremost knowledge bridge between China and the African continent.
Researcher Profiles

Christopher Burke is a Research Fellow at the Centre of Chinese Studies, Stellenbosch University, where he has worked on a number of projects examining the political, economic and social implications of China’s engagement with Africa. His interests include issues relating to infrastructure, industrialization, private sector development, peace and security. Christopher has spent eight years in Africa and almost 10 years in northeast Asia and has held numerous academic research positions at several academic institutions including: Faculty of Social Sciences, Makerere University, Uganda; the Centre for Defence Studies, School of Australian and International Studies, Deakin University, Australia; and the Institute for Far Eastern Studies, Kyungnam University, South Korea. Christopher has an M.A. in international relations from Yonsei University, South Korea, and a B.A. in sociology majoring in development studies from La Trobe University, Australia.

Johanna Jansson is a Senior Analyst at the Centre for Chinese Studies. She holds a Masters Degree in Peace and Conflict Studies from Umeå University, Sweden, an Honours Degree (cum laude) in Political Science from Stellenbosch University and a Bachelor Degree in Political Science from Lund University, Sweden. Prior to joining the CCS, Johanna has held positions within the Swedish Migration Board, the Swedish Correctional Services and the Swedish Trade Union for Civil Servants (ST). Johanna is a member of the Golden Key International Honour Society for academic excellence, is fluent in French, English, Swedish and conversant in IsiXhosa.

Dr. Wenran Jiang (Ph.D. Carleton University, MA, International University of Japan, BA, Peking University) is the Maclaggart Research Chair of the China Institute and Associate Professor of Political Science at the University of Alberta, Canada. He is a Senior Fellow of the Asia Pacific Foundation of Canada and Special Advisor on China to the Energy Council, a legislators’ group representing 11 US energy producing States and 5 Canadian energy producing provinces. Dr. Jiang has organized an annual high-level energy dialogue between Canada and China since 2004. He has written extensively on Chinese politics and foreign policy, and has focused more on China’s activities around the world in the areas of energy and resource extraction in recent years. Dr. Jiang has been invited to speak on the rise of China and China’s energy security issues around the world, and his articles and views on these subjects appear regularly in the world media. Currently, he is completing a book on energy security and Chinese foreign policy.