# Fuel shortage poses policy dilemma



A renewed fuel shortage has hit many Chinese cities over the past weeks, as independent refiners cut output to narrow their losses from the government's cap on pump prices.

This may pressure the government to reconsider its fuel price-setting policy, which is designed to tame inflation and shield low-income groups. Short supplies during the peak summer season may also spark social unrest.

In downtown Shanghai, Wang Qiang said he only managed to fill his car's tank after visiting six petrol stations over the weekend. It took him almost the entire afternoon, he said.

"The petrol station attendant told me they had run out of 93-octane gasoline so I had to switch to the pricier 97-octane, although I'm not quite sure whether that's suitable for my engine," said Wang, 29, a sales manager.

"Last year, people would probably have been very unhappy with any fuel price hikes. But today, my biggest concern is whether I can get the gasoline."

Fuel shortages have also been reported from Beijing to the southern Guangdong Province, China's main manufacturing hub and major oil consumer.

Crude oil prices, now well above US$120 a barrel in New York, are leaving China's refineries deep in the red - although the government has been handing out subsidies to trim their losses and encourage more processing. China last raised pump prices in November last year, when crude was about US$95 a barrel.

Although top government officials have said fighting inflation, already running near the highest level in almost 12 years, is the top task at present, its tight regulation on fuel prices, as well as utility tariffs, has been criticized.

Policies that maintain both subsidies and price caps are not conducive to energy conservation, and may hurt investment. And the fuel subsidy is actually subsidizing the whole world, given China's role as a prime manufacturer of exports.

Last month's devastating earthquake in Sichuan Province added to the difficulties for policy-making on energy prices, as the government must adopt price intervention to avoid further inflation. This makes rising fuel costs more unlikely in the near term.

And the move to divert fuel supplies to Sichuan from other provinces could lead to more imports

- which could, in turn, lead to higher global oil prices.

With high crude rates, governments in other emerging Asian markets such as Malaysia and India have recently scrapped fuel price caps and cut subsidies. This helped crude rates retreat from the record high of more than US$135 on May 22, as the market believes higher fuel prices would curb demand.

China International Capital Corp Chief Economist Ha Jiming said China should do the same, as domestic fuel prices are more than 50 percent below international levels.

The state subsidy totaled 220 billion yuan (US$31.7 billion) in 2007, or 0.9 percent of the gross domestic product.

"This (fuel rises and subsidy cuts) could add to some short-term inflationary pressure and may cause unrest in some nations ... while in the face of an upward move in global inflation, countries with better financial strength will be more able to shoulder the pressure," Ha said.

Chances are that the government will raise fuel prices in the second half of the year, when inflationary pressure gradually eases in the aftermath of the Sichuan earthquake, Ha said in a report.

(*Shanghai Daily* June 5, 2008)



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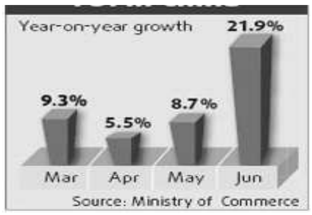


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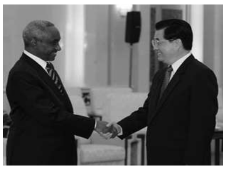
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