



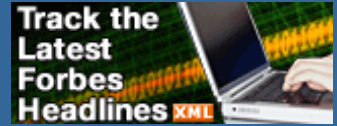
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AFX News Limited

China's Sinopec calls for fuel pricing reforms, fuel consumption tax-UPDATE

11.09.2005, 02:48 AM

(Updating to add details of Sinopec official's remarks)

BEIJING (AFX) - China Petroleum & Chemical Corp (Sinopec) (SHA 600028; HK 0386; NYSE SNP) called on the government to raise fuel prices to international levels and impose a fuel consumption tax.

'China should raise fuel prices to international levels and collect a fuel consumption tax,' said Xiang Hongcao, vice-president of Sinopec.

'We should enhance consumers' fuel conservation consciousness and improve fuel conservation through price and tax policies,' he told a business conference organized by Hart Energy Publishing.

Sinopec, China's largest refiner, has been suffering from the government's current pricing mechanism, which does not allow the company to pass on all of the cost of surging international crude prices.

Although he gave no details on when a reform could be implemented, analysts and industry experts expect some kind of reform, though not full-liberalization, to be imminent.

The company saw third quarter net profit fall to 8.6 bln yuan from 10.8 bln yuan a year earlier, based on international accounting standards, due to surging international crude oil prices.

Average refining margins for the first three quarters were at 1.48 usd per barrel. It booked an operating loss of 7.93 bln yuan for the same period.

Refining margins in the fourth quarter are not expected to improve, Sinopec has said.

Meanwhile, Xiang said he expects China to import 60 pct of its oil by 2020.

In 2004, China imported 123 mln tons of crude oil, which accounted for 35 pct of its total oil needs.

He said other measures to reduce China's reliance on crude oil include the development of diesel-fueled vehicles and vehicles which use products derived from natural gas and coal.

He said other options include using ethanol gasoline and bio-fuels among others.

He added that China should reduce its fuel shortages by restricting some forms of economic development.

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Oil and gas producers call for higher price

(China Daily) Updated: 2005-11-29 10:35

China's top oil and gas producers PetroChina and Sinopec yesterday said government-controlled prices for natural gas discouraged them from investing in gasfields, because they fear they will not make a profit.

They say the government should raise gas prices to avoid this situation.

PetroChina plans to more than double its current gas production to 45 billion cubic metres by 2010, some 70 per cent of the country's total gas output, PetroChina sources said.

If prices remain much lower than world levels, then the pressure to reach that target will be greater than if prices were high, as the firm will not be as interested in investing and therefore more easily increasing output, according to Tang Yali, vice-president of the Natural Gas & Pipeline Company under PetroChina. He spoke to China Daily on the sidelines of the China Gas Summit 2005 in Beijing.

"We now make little profit in the natural gas sector as a result of government-regulated low prices, far behind world levels," said Tang.

Wang Gongli, president of PetroChina's Planning and Engineering Institute, told the summit that the wholesale gas price in the United States was around 5.5 US cents per cubic feet last year, while in China it was less than 0.028 yuan (0.35 US cents) per cubic feet.

"Like gasoline and diesel, we now use higher profits in the upstream crude oil business to offset squeezed profit margins in the natural gas sector," Tang said.

"We have been talking with government bodies including the National Development and Reform Commission to increase gas prices and better streamline the energy pricing system," he said.

Domestic rival Sinopec yesterday made a similar complaint about the rigid price-setting mechanism, which does not fit in with a true market economy.

The Beijing-based oil refiner has planned to almost double its annual gas production to around 12 billion cubic metres.

Liu Enxue, general manager of the Sinopec natural gas company, said that if the government

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increases prices, there will be even more growth in projected gas output as the firm will be more willing to invest in developing gasfields.

Liu said Sinopec could invest 2 million yuan (US\$247,000) in a gas well in the Ordus Basin of Northwest China, where the natural gas price is 0.83 yuan (10.2 US cents) per cubic metre.

That field can currently produce 290 million cubic metres of natural gas.

"We make a small profit from the current price at this gasfield," said Liu.

But he said that if the price was increased by 0.1 yuan (1.2 US cents) per cubic metre, the Beijing-based refiner would further increase investment in the field, which has a reserve of some 100 billion cubic metres.

Niu Li, a senior economist with the State Information Centre, told China Daily the government should work out a pricing system to link all related energy prices including those of coal, oil, gas and electricity, in order to streamline the upstream and downstream sectors and better reflect market supply and demand.

Feng Fei, a department director with the State Council Development and Research Centre, said natural gas prices should not be too high, as lower prices help to boost the consumption of cleaner energy sources.



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