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## China's Fuel Price Gains Won't End Refining Losses (Update1)

May 24 (Bloomberg) -- China Petroleum & Chemical Corp. Chairman Chen Tonghai said government fuel price increases won't stem losses at Asia's biggest refiner as crude oil costs rise.

"It's not enough yet," Chen said at a shareholders meeting in Beijing today, after the government yesterday raised the price of gasoline by 10.6 percent, diesel by 12.3 percent and jet fuel by 10.3 percent. Shares in the company, known as Sinopec, fell as much as 2.6 percent.

Retail gasoline prices in China have gained 18 percent this year, lagging behind the 39 percent advance in Singapore, Asia's biggest oil-trading center. Sinopec had a 7.88 billion yuan (\$982 million) operating loss from refining in the first quarter because of government price controls, designed to shield consumers and companies from rising energy costs.

The increase "in no way restores refining to profitability," Thomas Hilboldt, head of Asia Pacific oil and gas at Citigroup Inc. wrote in a report today. "Even with the rise, prices will remain at loss-making levels and some 20 percent behind Singapore."

Shares of Sinopec had their biggest gain since Feb. 1 before the announcement, advancing 5 percent to HK\$4.75 in Hong Kong yesterday. Today, the stock traded as low as HK\$4.625 and was at HK\$4.675 at 11:41 a.m. Shares in Sinopec's unit, Sinopec Shanghai Petrochemical Co., fell 6.5 percent to HK\$3.60, wiping out yesterday's 2 percent gain.

### PetroChina Refining Loss

PetroChina had a loss of 19.8 billion yuan at its oil refining business last year, compared with a profit of 11.9 billion yuan in 2004, the company said March 20.

In Asia's free markets, refiners' profit from turning crude oil into gasoline, diesel and other products rose to a nine-month high after plant shutdowns increased demand from countries such as Australia, Japan and Indonesia.

The so-called complex refining margin in Singapore, Asia's biggest oil-trading center, gained 20 percent to \$14.02 a barrel in the week ended May 19, Merrill Lynch & Co. said in a report sent to Bloomberg yesterday by e-mail.

China's central government, which controls fuel prices to limit their impact on inflation, increased prices for gasoline, diesel and jet fuel by 500 yuan a metric ton starting today, the National Development and Reform Commission, the nation's top economic planner, said in a statement on its Web site.

### Sinopec Shanghai

"It's not going to completely ease our refining losses," Zhang Jingming, company secretary at Sinopec Shanghai Petrochemical Co., China's largest ethylene maker, said in a telephone interview today. "An increase of about 1,000 yuan a ton would have eased the losses."

The government is moving toward changing its fuel pricing mechanism and Zhang said he expects to "eventually see domestic prices moving in line with international levels."

The announcement boosts the factory-gate price of gasoline to 5,200 yuan a ton, diesel to 4,570

yuan and jet fuel to 5,340 yuan. Wholesalers and retailers are allowed to vary prices by as much as 8 percent above or below the factory-gate price.

The price increase is aimed at guaranteeing supply of refined oil products in the domestic market, the Beijing-based commission said in the statement.

China's government needs to change the way fuel prices are set, said Wu Jun, an oil analyst at China International Futures (Shanghai) Co. "Raising oil prices once in a while is a legacy from old traditions," he said.

#### Fuel Shortages

Chinese gasoline traders and manufacturers have urged the government to ease price controls blamed for shortages last year in Shanghai, the nation's commercial center, and provinces including Guangdong, the biggest manufacturing hub.

"Because the refining margin in China has been so low, refinery runs have been low," said Craig Pennington, a senior oil analyst with Schroders Plc in London. Today's increase by the government should increase refinery output, he said.

The price increase "might have a minor negative impact on consumption," Pennington said. "But this is a country that is seeing pretty decent demand anyway."

China's oil refining industry reported a loss of 9.8 billion yuan (\$1.2 billion) in the first quarter, Zheng Jingping, a spokesman for the National Bureau of Statistics, said in Beijing on April 20.

"It's a move in the right direction," said Lei Wang, who helps oversee about \$20 billion, including shares of Sinopec at Thornburg Investment Management Inc. in Santa Fe, New Mexico. "In the long term, further price increases are needed to make sure the profitability of Sinopec will be restored."

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