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Far From Beijing's Reach, Officials Bend Energy Rules



Chang W. Lee/The New York Times

SPECIAL ELECTRICITY DEAL The Qingtongxia Aluminum Group has been spared higher rates.

By HOWARD W. FRENCH Published: November 24, 2007

QINGTONGXIA, China — When the central government in Beijing announced an ambitious nationwide campaign to reduce energy consumption two years ago, officials in this western regional capital got right to work: not to comply, but to engineer creative schemes to evade the requirements.

The energy campaign required local officials to raise electricity prices as a way of discouraging the growth of large energy-consuming industries and forcing the least efficient of these users out of business. Instead, fearing the impact on the local economy, the regional government brokered a special deal for the Qingtongxia Aluminum Group, which accounts for 20 percent of this region's industrial consumption and roughly 10 percent of its gross domestic product.

Local officials arranged for the company to be removed from the national electrical grid and supplied directly by



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Chang W. Lee for The New York Times

**'THE WORKERS WON'T STAY'**  
Workers removing molten material from a furnace at the Shizuishan Tianhe Ferroalloy Company, at an industrial zone in the Ningxia Hui Autonomous Region. An official there said that it was impossible to squeeze out savings to pay higher electrical rates and that if wages were lowered, "the workers won't stay."

the local company, exempting it from expensive fees, according to an electricity company official who asked not to be named, an official of the aluminum company and the official Web site of the nearby city of Shizuishan. As a result, Qingtongxia continued to get its power at the lowest price available.

It was a cat-and-mouse game grimly familiar to Chinese officials, who have a long tradition of spearheading ambitious nationwide campaigns that are all too often thwarted at the local level, partly because local priorities clash with national ones.

Concerned about China's roaring economic engine consuming too much energy, national officials aimed to cut energy use by 20 percent per dollar of output within five years. China's energy consumption has more than quadrupled since 1980.

The environmental toll is staggering. The country is already the world's largest user of coal, the dirtiest type of energy. China's coal consumption alone is projected to double in the next 20 years, according to the International Energy Agency.

Beijing has so fixated on the 20 percent goal that it has become the centerpiece of its overall strategy to reduce pollution in addition to consumption, as well as its main talking point in diplomatic negotiations to curb the output of gases that cause [global warming](#). The target has elicited support among environmentalists in China and abroad. They regard it as ambitious given the explosion of heavy industry in China, which consumes vast amounts of electricity and, as it expands, makes the overall economy less energy efficient.

**Drive to Conserve Sputters**

Even so, the drive has mostly sputtered. According to official estimates, which in China are often overly generous, the country saved only 1.23 percent of energy per unit of output last year. In the first half of 2007, the authorities claim to have achieved 2.4 percent, double the previous year's rate. Energy experts say they believe that the savings will increase over time, but to meet the goal of a 20 percent reduction by 2010, the country will have to reduce energy per unit of output by 4 percent a year on average, so the chances of achieving it look increasingly slim.

Officials in Beijing, faced with the likelihood that they will fall short of their target, have issued uncharacteristically scathing assessments of the performance of some local leaders, and they have vowed to use more of their powers to bring wayward officials into line. In May, China's premier, [Wen Jiabao](#), complained bitterly. "Understanding is not adequate, responsibilities are unclear, measures are not complementary, policies are incomplete, investment doesn't arrive, and coordination is ineffective," he said of efforts to cut energy consumption. "If these problems are not turned around, it will be difficult to achieve any obvious progress."

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More recently, Zhang Lijun, a deputy director of the State Environmental Protection Administration, warned that China was likely to miss its targets for emissions controls for the current five-year plan, which ends in 2010. "We haven't spotted any substantial indicators of a slowdown in the expansion of energy-intensive sectors," Mr. Zhang said.

The struggle to meet the target highlights the challenge of making China greener at a time when China's top leaders have continued to emphasize breakneck growth, even as they worry about its costs. Officials at all levels arguably still face greater risks to their careers if they allow economic performance, job creation or tax revenue to lag than if they fail to curb pollution. Slower growth also means fewer opportunities for friends and relatives of people in power to cash in on the country's boom.

The tug of war between localities and the central government also shows the limits of China's ability to impose change on a vast, unruly country by edict, while exposing the weaknesses of a one-size-fits-all approach to reform in a country where regional economic disparities are rapidly growing.

In the Ningxia Hui Autonomous Region, the western region where Qingtongxia is, the drive to save energy ran up against the local obsession with economic growth. For years, the province was left out of the economic boom that transformed China's coastal cities. In the late 1990s, China initiated a "Develop the West" campaign, encouraging regions like Ningxia to catch up with other areas. Now the state's priorities are beginning to move away from unrestrained growth, just as Ningxia was beginning to move toward it.

Ningxia depends on its metallurgy industry to bring a prosperity that has long eluded its residents. It is one of the few advantages in this landlocked area. Coal is plentiful here, and planners were quick to seize on the idea of using it to generate the prodigious amounts of electricity needed to smelt metals. Now, the shift in policy directions from Beijing threatens that ambition.

"It's such a simple theory to say that everyone knows you make more profit growing bananas than potatoes," said an executive of one metal working factory who used a farming analogy to question the central government's energy reforms. "But how can you force people to grow bananas on land where only potatoes will grow? Ningxia is a land of potatoes, and it is our natural resources and environment that determine everything."

### **Conscious of Lagging Growth**

Publicly, regional and company officials say they must heed the central government's command. "If the policy was issued at the national level, then it must have been taken after careful consideration," said Ding Jiangtao, deputy director of Qingtongxia's aluminum smelter.

But in practice, local officials are acutely conscious of their lagging growth. Zhang Jianping, the deputy director of the Electricity Bureau of the Ningxia Economy Commission, which is in charge of carrying out the energy reforms, said: "As a less developed region, Ningxia needs time to progress and develop. We're working hard to close the gap between us and the other provinces."

In Ningxia, signs of this gap are everywhere. Even the regional capital, Yinchuan, has an unfinished look and feel to it, with broad ceremonial avenues, but little of the traffic and bustle common in the country's east. The countryside is all arid farmland, occasionally relieved by low-slung mountains. Here and there, the government has created industrial zones, hoping to incite a takeoff. Most, however, consist of little more than grimy grids of streets where coal dust hangs thick in the air.

Even before the national energy consumption campaign began in 2005, Ningxia officials worked to get around environmental regulations that could hinder growth. Although Beijing issued rules in 2002 trying to limit the number of new coal-burning power plants, Ningxia has built at least three that either did not have the required permission, or failed to meet new environmental standards, according to the State Environmental Protection Administration.

Even after the national government canceled exemptions to special consumption fees that used to be available to companies like Qingtongxia in 2004, the local government extended them for another year, obtaining huge savings for its metal industries. As recently as 2005, regional officials continued to argue that the exemptions should remain.

Local officials have long permitted big companies like Qingtongxia to undercut even officially established energy prices. The lowest officially permitted electricity price in Ningxia, usually reserved for the most efficient of big industrial energy users, is 5.3 cents per kilowatt hour. But until this past May, Qingtongxia had managed to win itself a rate of 4.8 cents per kilowatt hour.

The central government tried to shame the provinces into complying. This April, Beijing cited 14 provinces it said had failed to comply with the new efficiency rules. Among them was the Ningxia region, whose energy intensity, or rate of power consumption per unit of gross domestic product, is the country's highest. Beijing's new guidelines called upon each of China's provinces to draw up a list of its most wasteful industries and to put into effect a new pricing schedule for electric power that penalizes the least efficient users.

But Mr. Zhang, the deputy director of Ningxia's electricity bureau, claimed he had never heard that Ningxia was cited for violations. Mr. Zhang also said he was unsure whether any list of big energy wasting industries had yet been drawn up. "We've actively improved our work and we need the media to understand us," he said.

An official at the Ningxia Power Company who spoke on the condition of anonymity said many of the region's strategic metal working industries had been spared Beijing's mandated price rises until as recently as this May, nearly two years after they were announced. "That favorable price wasn't approved by the state," the official of one company said flatly. "It was a regional policy."

### **Getting Around the Rules**

Although it has protected its biggest energy users, the Ningxia government has begun to go after smaller industrial power consumers, imposing higher electricity prices and forcing some companies out of business. At the Lanshan industrial zone, a grid of old-line coal and metal working factories, managers of small and medium-size factories complained that they were being seriously hurt by higher electricity prices.

"There is no way for me to squeeze out any savings to offset the higher price of electricity," said an official at the Shizuishan Tianhe Ferroalloy Company, where workers removed large vats of molten material from a giant furnace by hand. "The equipment we have determines the amount of electricity you consume each month, and our wages are already set. If I lower them, the workers won't stay."

The chairman of the company, Dai Zhanyin, said there was no use complaining. Unlike the situation at a big company like Qingtongxia, he said, "no one will care about your loss."

Others among the relatively small players, however, have found the region's new energy

savings regulations easy to get around. At another metal working plant, where iron ore is forged into bread loaf-shaped lumps of steel, Di Duoxing, the chairman of Shizuishan City Hepu Mining Industrial Company, said the small size of his furnace had won him a place on the list of inefficient energy consumers and put him in line for sharply increased electricity prices.

Mr. Di struck on an idea, though. Using a single hand-operated press, his factory produces a small number of bricks from recycled materials recovered from his steel foundry. "When I went to pay the electricity bill I protested that I was a producer of recycled bricks, and they suspended the price increase," Mr. Di said. "But as far as I know, the rest of the silicon-iron producers have already been subjected to the new price."

Chinese environmentalists say to make such campaigns work, the government will have to penalize localities that fail to comply. "To get reforms implemented, two things have to be done," said Lin Boqiang, director of the China Energy Research Institute at Xiamen University. "One is to rate the local government's performance on compliance, and if they don't comply telling people they have to go. The other is introducing financially meaningful penalties. We haven't seen either of these yet."

*Li Zhen contributed reporting.*

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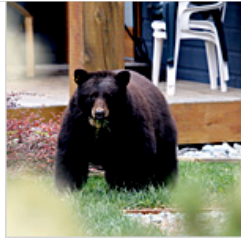
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