

# **Low oil prices present a good opportunity to promote reforms**

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A worker fills up a car with fuel at a gas station in Lianyungang city, East China's Jiangsu province, Feb 9, 2015. [Photo/Xinhua]

When international crude oil prices recently hovered around \$30 a barrel, hitting a new twelve year low, the National Development and Reform Commission (NDRC) released new regulations on the refined oil pricing mechanism and established a lowest price limit.

When the price of oil in the international market is below \$40 a barrel, the maximum retail price of gasoline and diesel will not be reduced. The main reason is to provide protection for domestic crude oil production capacity and to maintain oil self sufficiency to ensure energy security.

China's oil and gas industry has long been dominated by three giant state owned corporations CNPC, Sinopec, and CNOOC. The sector has been urged to deepen its market-oriented reforms.

Although reforms in the oil and gas industry have started, they still face grave challenges. I think the moment international oil prices hit a new low is the best time to implement radical reforms in the oil and gas industry.

At a low price of around \$30, China should increase crude oil imports to significantly boost crude oil reserves, and then progressively reduce domestic production, even temporarily close down a vast number of projects in order to reserve resources.

The oil production companies may lose some small benefits, but this would be the most beneficial process both for consumers and national energy security.

Furthermore, even during periods of high oil prices, the government has been subsidizing the three major oil companies. According to statistics from 2012 to the first half of 2015, CNPC received 34 billion yuan of government subsidies. In fact, CNOOC recently announced it would cut down crude oil production due to operating losses.

In addition, the oil and gas industry should be opened to private capital and foreign companies, which would introduce competition in the industry. The entry of private and foreign-funded enterprises would not reshape the industrial structure, but instead, would promote marketization and improve operational efficiency.

The current oil prices provide a great opportunity for large-scale acquisition of oil and gas blocks. Therefore, the government should encourage qualified private investors to acquire overseas oil and gas resources.

Doing this can accelerate reforms in the oil and gas industry and promote the market-oriented reform process. When oil prices are low, private companies will invest more actively, thus cultivating large numbers of enterprises.

With the introduction of competition, the businesses within the industry will become more efficient and oil and gas resources will be more diversified. As a result, national energy security will not be weakened but will be more secure. All in all, the current moment, at which oil prices are low, is a good time for the Chinese oil and gas industry to implement much needed reforms.

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