

# China's 13<sup>th</sup> Five Year Plan: *Implications for the coal sector*

In March, the Chinese Government released the 13<sup>th</sup> Five Year Plan for Economic and Social Development [hereafter “the plan”], which sets out the guidelines and goals for the development of the Chinese economy for the period of 2016 to 2020. Its importance and effect on the energy sector cannot be underestimated as it puts strong emphasis on the long term transition from thermal energy sources such as coal and oil to clean and renewable sources like hydropower, wind and solar generation. According to the plan, China's overall energy target will not exceed 5Bn tonnes of coal equivalent.

In 2015, Chinese coal production declined by 3.5% y-o-y to 3.68Bn tonnes. Coal imports decreased by 30% to 204m tonnes due to slowdown in domestic demand and low domestic coal prices. Further cuts to coal consumption are expected in 2016 as China aims to cut air pollution in major cities and restructure the domestic market. Overall, Chinese coal sector will cut 500m tonnes of capacity over the next 5 years with another 500m tonnes to be restructured in 3 to 5 years.

## Implications for the coal sector

Based on the guidelines provided in the latest Five Year Plan, Chinese provinces and coal producers individually contributed to the supply-side structural reform, which aims at capacity reduction.

China's top coal producer, Shenhua Energy, plans to cut coal production capacity by 30mtpa in 2016, through halting construction of its 12 coal mines. This equals to about 11% of Shenhua's commercial coal production at 280.9m tonnes in 2015, down 8.4% y-o-y.<sup>1</sup>

In the same vein, Shanxi province will stop adding new coal capacity over the next five years. The province also aims at shutting down 1000 coal mines this year with combined capacity of 60mtpa. Shanxi coal production increased to 944m tonnes in 2015, up 0.6% y-o-y. Inner Mongolian Autonomous region will close 280 coal mines with combined capacity of 100mtpa, while Jiangsu will cut nearly half nearly half of its capacity by 2020.

Slowdown of Chinese economy led the National Development and Reform Commission (NDRC) and the National Energy Administration (NEA) to order a construction halt of coal-fired power plants in 13 provinces including Inner Mongolia, Shanxi and Shaanxi where generation is in surplus. Further 15 provinces are required to delay construction of already approved power plants. The new regulations come into force as Chinese electricity demand is slowing down and the country is shifting from industrial economy into a modern technology hub. The new Five Year Plan favours renewable technology thus provinces with too much generation capacity are banned from adding new capacity while those with power shortages were ordered to focus on renewables and keep coal-fired capacity at a minimum.

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<sup>1</sup> China Shenhua Energy – Announcement of the Major Operational Data of December 2015

Chinese generation capacity reduction policies	
Province	Policies
Anhui	Approvals for new project halted until late 2017
Beijing	Not Affected
Chongqing	Not Affected
Fujian	Approvals for new project halted until late 2017
Gansu	Both policies
Guangdong	Both policies
Guangxi	Construction suspended
Guizhou	Construction suspended
Hebei	Not Affected
Heilongjiang	Both policies
Henan	Both policies
Hubei	Both policies
Hunan	Not Affected
Inner Mongolia	Both policies
Jiangsu	Both policies
Jiangxi	Not Affected
Jilin	Not Affected
Liaoning	Construction suspended
Qinghai	Not Affected
Shaanxi	Both policies
Shaanxi	Construction suspended
Shandong	Both policies
Shanxi	Both policies
Sichuan	Not Affected
Xinjiang	Not Affected
Xizang	Not Affected
Yunnan	Both policies
Zhejiang	Not Affected

Source: NEA

## Social consequences

Chinese Minister for Human Resources and Social Security, Yin Weimin, announced in February that 1.3 million workers could lose jobs in the coal industry as a consequence of the reforms. This accounts for about 11% of the total workforce in the mining industry. Indeed, coal mine closures are deeply unpopular in the regions heavily reliant on mining. In Shanxi, Datong Coal Mine Group alone intends to lay off 15,000 employees over the next 5 years. This will require sustained and balanced state intervention as China's stability-obsessed government is worried that boom in unemployment and often forced resettlement may cause social unrest. To counteract that the State Council promised to allocate 100Bn yuan or (\$20.6Bn) over the next two years.