

BME China

Analysis of ongoing power gaps in China

Governmental improvement measures and potential impact on procurement activities

Description of current situation - Impact for Chinese and Foreign companies in China

Since middle of September, many provinces such as Jiangsu, Guangdong, Yunnan, Guangxi, Zhejiang, Liaoning, Jilin and Heilongjiang have successively started reduced power consumption, and many local industrial enterprises are required to reduce peak power consumption to prevent forced power shutdown. Impacted are local Chinese companies as well as foreign companies, which are about to face sensitive production shortage.

The main reason for power rationing tend to be high coal prices in combination with a general supply gap – intensified by an ongoing Chinese embargo on imports on raw materials from Australia due to diplomatic tensions between the two countries. But also the fact that China is aiming to reduce its carbon emissions is a driving issue.

At present, thermal power generation still accounts for more than half of China's electricity production. Under the background of rising coal prices, the thermal power generation enterprises demonstrate low willingness to generate additional electricity, which directly leads to power shortage. According to a BME China Office research on local price development, power coal price has kept increasing from March 2021. In September 2021 the respective market prices increased by 51,6%. Although the blackout area is large, the reasons for power shortage in various regions is different:

Northeast-China Yangtze River Delta and Pearl River Delta

The main reasons for power rationing in Northeast China are high coal prices and additional sudden reduction of wind power. Due to the sudden reduction of wind power caused by the weather and the insufficient output of new energy power generation, the power supply gap has further increased to a serious level affecting various industries, particularly in industrial enterprises with high-energy consumption and high emission. According to investigations of BME China Office, 80 Steel companies stopped production (forced and/or volunteered) due to power limits within September 2021 causing the lowest steel output of the country since 5 years. Additionally 11 Northern provinces have interfered their local cement manufacturers to reduce their production output. Since these provinces accumulate about 50% of the cement capacity of the entire country, current cement prices increased by 34% comparing to same month last year.

Within the area of Yangtze River Delta and Pearl River Delta the strong momentum of the post-covid economic recovery has increased and driven the demand for electricity and power in Guangdong, Zhejiang and other places. Since late August this year, many places in the South have introduced power outage and restriction measures with varying degrees, mainly focusing also on industrial enterprises with high-energy consumption. According to local authorities, since beginning of September 2021, 34 companies located in Jiangsu province, Shandong province and Zhejiang province – mainly representing the chemical, nonferrous metal and moulding industry- reported respective forced power cut.

Due to limited power generation capacity in the affected provinces, governmental instructions have been given to implement measures in order to prevent the collapse of the entire power infrastructure. This contains power-rationing and peak orientated power-cuts.

Western Provinces

Reasons for power failure in western provinces is the ongoing "westward migration" of high energy consuming industries. Experts pointed out that, for example, the power demand of the entire province of Qinghai increased by 18.0% from January to July, while the power generation increased by only 3.9% in the same period, resulting in a huge local supply and demand gap. Due to the introduction of eg. electrolytic aluminum and other high energy consuming enterprises in these areas in recent years, the external supply of hydropower and power has been reduced, which not only increases their own power demand, but also directly intensifies the power tension in other places.

Governmental approach- How to close the power gap

- On the premise of safe production, promote coal mines with potential to increase production to release production capacity as soon as possible
- Accelerate the production and production of approved and basically completed open-pit coal mines
- Promote coalmines that have stopped production for rectification in accordance with laws and regulations and resume production as soon as possible
- Support coal-fired power enterprises to increase power supply

Some of above mentioned measures are already being implemented. According to BME China Office research on local media and governmental sources, on October 9th two additional power assemblies with power production capacity of 1,3 million kilowatt (KW) and 1,2 million KW have been released. Additionally steps have been taken to increase electricity prices.

BME-Outlook – General observations and impact on procurement activities

According to current development and governmental measures, evaluation of the BME China Office underline that prices for electricity are able to increase up to 20% from current level in the short term. This would have a direct impact on energy consumption. By this, the risk of power shortages will be reduced significantly. However, factories and industries with high power consumption as well as factories with low energetic efficiency will continue suffering power supply issues until the general supply gap of coal is stabilized. BME-Members which for example buy steel, steel components or chemical intermediate products from China, might be confronted with rising prices in the near future. Its recommendable observing price developments and to modify respective transaction orders if necessary. In combination with ongoing tensions of global supply chains, including low logistics capacities, container shortage and higher lead times, additional price increases for consumer are predictable.

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