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# China's small coal mine policy in the 2000s: A case study of trusteeship and consolidation



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## ARTICLE INFO

## Article history:

Received 16 July 2013

Received in revised form

24 September 2013

Accepted 24 September 2013

Available online 22 October 2013

## Keywords:

Small coal mine (SCM)

Trusteeship

Consolidation

Nationalization

China

## ABSTRACT

China has been trying to improve the safety and environmental performances of small coal mines (SCMs) in 2000s through measures of trusteeship and consolidation. The question whether such policy and practice can sustain small scale mining is interesting academically and important practically for China and the world. This paper finds that the Chinese SCM policy has been switched from encouragement to restriction for legal SCMs and from privatization to nationalization in some provinces in the past 10 years. Legal SCMs face pressure to be expanded continuously and to be absorbed or consolidated by large coal mines, which often are state owned. Unexpectedly, financial resources may not be a big constraint nowadays due to availability of private equity investment resources. The paper argues that both the trusteeship and consolidation approaches may only be able to sustain SCMs in the short run. A more sustainable measure is to establish a stable, transparent and inclusive legal and fiscal framework. This paper concludes that those trusteeship approaches may be applicable to restructuring small scale mines in other countries; however, the consolidation practice in China's is unique and thus may not be applicable to others.

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## Introduction

Similarly with other countries, China's small coal mining sector has many contradictory characteristics. Small coal mines (SCMs)<sup>1</sup>, some of which are not 'small' at all (their annual production capacity could be as high as 450,000 t) (Xinhua, 2013), have played a significant role in providing energy, jobs, and revenue for local governments, all of which are crucial, especially in the remote and poor regions (Andrews-Speed et al., 2002b; Shi, 2009a); saving small size and economically marginal reserves; substituting firewood, thereby protecting fragile local eco-systems (Andrews-Speed et al., 2002a); easing transportation constraints through localized production; and stabilizing coal markets (Shi, 2009a). On the other hand, the benefits of SCMs, however, come at costs (Shi, 2009a). The benefits of SCMs, however, come at costs, such as illegal mining, resource waste, deadly accidents, environmental

damage (Andrews-Speed et al., 2003; Gunson and Yue, 2001; Shi, 2003; Wright, 2000), and market distortion (Shi, 2009a).

These contradictory characteristics, together with a growing demand of coal, increasing production capacity of State-owned Coal Mines (SOCMs) and escalating concerns over the environment and safety, have resulted in diversified, dynamic and prolific policies for SCMs in the past three decades. However, most studies have shown that the Chinese SCM's policies are administrative and only service the interests of the government such as energy supply, improvement of safety performance, and environmental protection, while few attentions have been put from the perspective of SCMs themselves, and thus improvement of SCMs' ability and capacity are seldom addressed by the government (Andrews-Speed et al., 2005, 2003, 2002b; Shen and Andrews-Speed, 2001; Shen et al., 2012; Shen and Gunson 2006; Shi, 2003, 2009a; State Council, 2010; Wright, 2000). Nevertheless, the SCM policy portfolio has been enriching and dynamic in the past ten years: various forms of trusteeship approaches that address the absences of technical capacity and equipment have emerged, such as providing expertise and professionals to SCMs, training miners and involving technology providers. In addition, resource integration and mine consolidation have been implemented nationally in the past five years (Ran, 2010; Shen et al., 2012; Yu, 2010).

The dynamics and diversification of policies in the past ten years have not been well addressed in the literature. In particular, no study has yet studied the background, status and implications

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<sup>1</sup> The classification of coal mines in China is often a mix of ownership and scale as: Key State-Owned Coal Mines (Key SOCMs), Local State-Owned Coal Mines (Local SOCMs) and Township, Village and Individually Owned Coal Mines (TVCMs, including privately owned coal mines). Because historically the majority of TVCMs are small-scale, the terms SCMs and TVCMs have been interchangeably. To avoid confusion, SCMs are used throughout the paper.

of the trusteeship and consolidation policies, the two major approaches that have been under discussion and debate in the past ten years or so. A few questions remain unanswered: Whether these policies can improve the safety and environmental performance of SCMs in the long run? Can China's experience be able to apply to other countries? What lessons can the rest of the world learn from China's recent experience? Answers to these questions would be of interest to policy makers and academicians in China and beyond.

This paper critically reviews China's recent policies on SCMs with the focus on trusteeship and consolidation, including absorption. The paper may make contributions in several ways: it updates the literature with China's policy on SCMs in the past decade. A critical review of trusteeship and consolidation policies will add value to the literature. It adds debates in China to these ongoing policy initiatives. Finally, study of these innovative approaches to address SCMs may offer lessons and implications for other countries.

The next section briefly introduces the evolution of SCMs in the past three decades. Section 3 reviews a few trusteeship initiatives that have been implemented to renovating SCMs. Section 4 evaluates the practice of resource integration and SCM's consolidation with a focus on absorption and nationalization in Shanxi and Henan provinces. Section 5 discusses some general issues and implication for other countries. At the end of this paper, a conclusion on China's SCM policy of the past 10 years will be provided.

### Brief account of China's SCM policy since 1980s

China's policy towards SCMs in the 1980s and early 1990s was favorable because of the long term shortage of coal supply and thus have boosted the development of SCMs (Andrews-Speed et al., 2005; Shen and Andrews-Speed, 2001; Shen et al., 2009, 2012, 2006; Shi, 2009a). However, illegal SCMs had also proliferated. According to one report, among the 61,000 SCMs in 1998, more than 50,000 are illegal (Shi, 1999).

Illegal SCMs were tolerated initially because they filled the supply-demand gap. However, when facing the first oversupplied market and consequent heavy deficits in key state-owned coal mines (SOCMs), the Chinese government switched its SCM policy in 1998 to restriction for the first time in the history and started with closure of illegal SCMs (Andrews-Speed et al., 2005; Shen et al., 2012; Shi, 2003, 2009a). This closing mine policy was continued after 2002 due to safety concerns, even though the coal market was rebalanced and SOCMs were profitable collectively. For this period, the mine closure policy primarily targeted illegal and irrational SCMs (for example, a legal SCM located within the shaft area of a SOCM is deemed to be irrational), while a majority of legal SCMs have developed with free of hassle from the government. Refer to the handful of studies that accounted on the historical development of China's SCM policy (Andrews-Speed et al., 2003; Shen et al., 2012, 2006; Shi, 2009b).

The policy on legal and rational SCMs officially switched from a state of encouragement to heavy restrains in the year of 2005. Arguably, one motivation of this switch is to improve the competitiveness of China's coal companies in the consolidated global market (State Council, 2005a). In June 2005, the State Council published a coal industry development strategy, which demands to promote large mining groups and consolidate SCM enterprises (State Council, 2005a). In June 2005, the State Council started a three year plan to close down SCMs that are 'irrationally' located, lack safety conditions, waste resources and damage the environment (State Council, 2005a). During the period 2005–2007, 11,155 SCMs with 250 million tonnes annual production capacity were closed down (Xinhua Net, 2008).

From 2006, resource integration and mine consolidation gradually become the mainstream coal industrial policy when illegal SCMs were no longer the top concerns and the remained SCMs had more or less passed all the regulatory turmoil. The consolidation was triggered by a State Council's regulation that prescribes the liabilities of local governments on the existence of illegal SCMs, SCMs that do not have all six licenses or that have safety pitfalls (State Council, 2005b). A recent report identified that there were about 12,000 coal mines, including about 10,000 of SCMs, by the end of 2012, compared with 16,000 in 2008 (Hu, 2013; Wen, 2013). The number may be reduced to 7,000 at the end of 2015 (Wen, 2013).

This brief account shows that the SCM policy has been shifted several times in the past decades. One reason for such shift is that there is a lack of national legislation and all the activities are regulated by government policies (Liu and Zhang, 2012), which are often varied by market situations and government's immediate interests (Ran, 2011). The most significant highlighted shift is that SCMs were firstly pushed to be enlarged to be able to survive in the early 2000s but later was forced to be absorbed by others. In the past decade, the policies have increased the minimum standards and requirements for SCMs gradually, which in a large extent biased against SCMs. Size of mines are frequently used as an indicator to decide the fate of SCMs and the minimum size standards have been increased continuously. The continuous increase of minimum size standard makes many SCMs fail to catch up. Many SCMs have found that even though they have invested to meet government's standards, their mines still cannot be operational because by the time the renovation finished, the standards were raised again (Liu and Zhang, 2012). Even in some cases when safety standard, while not size standard, was used, it was also focus on the size of SCMs. For example, in February 2013, the state safety regulator announced that high-gas coal mines with annual production capacity of less than 300,000 t, as well as coal and gas outburst mines with annual production capacity of less than 450,000 t will not be approved in the future (Xinhua, 2013). It should be highlighted that coal mines at 300,000 production capacity is not small in any criteria.

### Renovate SCMs: a highlight of trusteeship approaches

From the early 2000s, the Chinese government started to take SCMs' perspective into consideration. While continuing to close down SCMs, from the early 2000s, the Chinese government has tried to help SCMs to improve their performance in technology, productivity and safety. These renovation initiatives have shown that the Chinese government has started to take SCMs' perspective into consideration. As the case in other countries, SCMs in China often suffer from shortages of financial capital, technology, expertise, skilled workers and geological information (Shi, 2003). Because of these shortages, SCMs do not have the resources or capacity to meet the regulatory, safety and environmental standards. Therefore, renovating SCMs with necessary resources is important for the development of SCMs in a social and environmental acceptable way. With the availability of private equity investment from SCM owners in the later 2000s (Chen, 2010), access to financial resources is no longer a big issue, but the other challenges remain.

With the change of attitude, the government and SCMs jointly improve the capacity of SCMs, while not just watch with folded arms. A symbolic example is training of miners by the Shanxi government. Training of miners in SCMs is far from enough in China and many accidents in SCMs are caused by those miners who were not well trained (Shi, 2009b). The majority of China's SCM miners are farmers who have not been formally trained and

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