

China

The Resource Governance Index (RGI) measures the quality of governance in the oil, gas and mining sector of 58 countries. Learn more and explore findings at www.revenuewatch.org/rgi.

Background

Recent analysis of global energy and mineral markets has focused on China's role as an importer of resources, often overlooking the exploitation of its own considerable mineral and petroleum reserves. The extractive sector accounted for 8 percent of gross domestic product in 2010, when China produced 3.2 billion tons of coal—more than 40 percent of global production. In 2011 China was the sixth-largest producer of crude oil, at 4.1 million barrels a day, and the ninth-largest producer of natural gas, at 9.9 billion cubic feet a day.

China	2000	2005	2011
Population (million)	1262.65	1303.72	1344.13
GDP (constant 2011 international \$ billion)	1,529.8	2,555.8	7,318.5
GDP per capita, PPP (constant 2005 international \$)	2,667	4,115	7,418
Extractive exports (% total exports)	5%	4%	3%

SOURCES: World Bank.

China's Performance on the RGI

China received a "weak" score of 43, ranking 36th out of 58 countries. It scored particularly poorly on the Enabling Environment component.

Institutional and Legal Setting

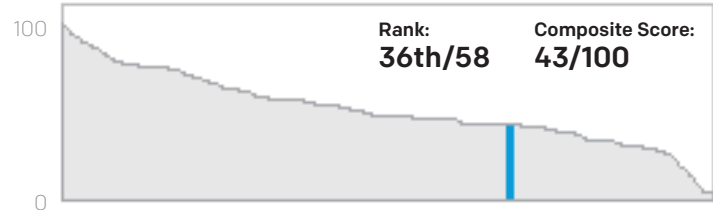
(Rank: 47th/58 Score: 43/100)

China's "weak" score of 43 is the product of a convoluted legal framework and a marked lack of public information.

China's Constitution does not specify which authority is in charge of resource governance; both the Ministry of Land and Resources (MLR) and the National Development and Reform Commission (NDRC) grant mining licenses and publish bidding information on their websites.

The licensing process is ostensibly competitive, but state-owned companies are given a share in all oil projects. In the coal industry, unlicensed mines frequently operate with the consent of corrupt officials. The government generally receives royalties and taxes from extractive companies, but gaps in the legal framework allow companies to negotiate to have their royalty payments reduced or even waived.

There is no legal requirement that resource companies



produce environmental impact assessments. The State Council issued an executive decree in 2007 on government openness and transparency, but its implementation still leaves much to be desired.

Reporting Practices

(Rank: 30th/58 Score: 46/100)

China received a "weak" score of 46, reflecting a lack of transparency regarding contract terms, revenue streams, and resource-funded subsidies.

There is little information available on the licensing process. The MLR advertises mines open to bidding and provides guidelines for the transfer of rights. It publishes winning bids, but not contracts. The government does not disclose how much money the MLR and NDRC receive or how the central and local governments share extractive revenues.

A variety of government agencies, including the MLR, the National Bureau of Statistics, and the Finance Ministry, publish resource data, but the information is often provided only in aggregated form. The Finance Ministry publishes disaggregated figures for special taxes; the MLR publishes information on reserves, production volumes, and estimates of investment in exploration and development, but provides no data on revenues.

Safeguards and Quality Controls

(Rank: 39th/58 Score: 46/100)

China's "weak" score of 46 is the product of a lack of effective oversight and the poor quality of government reports.

The legislature has no oversight role in the extractive sector and there are no procedures for appealing licensing decisions. The 2007 decree on government openness contains provisions that can exempt government officials from disclosing their financial interests in the industries they oversee. The National Audit Office reviews the accounts of state-owned companies and submits reports to the National People's Congress, but it is not clear that the legislature thoroughly reviews audited statements of resource revenues.

Enabling Environment

(Rank: 31st/58 Score: 36/100)

China received a “failing” grade of 36. While scoring relatively high on government effectiveness, China has low levels of democratic accountability and opaque budgets.

State-Owned Companies

(Rank: 11th/45 Score: 82/100)

The China National Petroleum Company and China National Offshore Oil Company are majority government-owned and dominate the petroleum sector. The coal sector is significantly more decentralized.

As publicly listed companies in China, Hong Kong and the United States, both companies must follow international auditing standards in their accounting and have independent auditors review their performance. The companies publish

information on reserves, production volumes, prices, resource export values, estimates of investment in exploration, production costs, subsidiary companies, quasi-fiscal activities, production stream values, royalties, and dividends. The National Audit Office supervises the companies and publishes their audited reports.

Subnational Transfers

(Rank: 25th/30 Score: 33/100)

The central government transfers a percentage of resource tax revenues to provincial authorities. However, rules for revenue sharing are not published and reporting practices vary among provincial governments.

China’s Composite, Component and Indicator Scores

Rank (out of 58)		Score (out of 100)
36	COMPOSITE SCORE	43
47	Institutional and Legal Setting	43
	Freedom of information law	33
	Comprehensive sector legislation	67
	EITI participation	0
	Independent licensing process	83
	Environmental and social impact assessments required	0
	Clarity in revenue collection	67
	Comprehensive public sector balance	33
	SOC financial reports required	100
	Fund rules defined in law	..
	Subnational transfer rules defined in law	0
30	Reporting Practices	46
	Licensing process	33
	Contracts	0
	Environmental and social impact assessments	0
	Exploration data	100
	Production volumes	50
	Production value	33
	Primary sources of revenue	25
	Secondary sources of revenue	0
	Subsidies	0
	Operating company names	0
	Comprehensive SOC reports	100
	SOC production data	100
	SOC revenue data	38
	SOC quasi fiscal activities	83
	SOC board of directors	100
	Fund rules	..

Rank (out of 58)		Score (out of 100)
	Comprehensive fund reports	..
	Subnational transfer rules	0
	Comprehensive subnational transfer reports	67
	Subnational reporting of transfers	100
39	Safeguards and Quality Controls	46
	Checks on licensing process	22
	Checks on budgetary process	44
	Quality of government reports	63
	Government disclosure of conflicts of interest	0
	Quality of SOC reports	100
	SOC reports audited	100
	SOC use of international accounting standards	100
	SOC disclosure of conflicts of interest	0
	Quality of fund reports	..
	Fund reports audited	..
	Government follows fund rules	..
	Checks on fund spending	..
	Fund disclosure of conflicts of interest	..
	Quality of subnational transfer reports	33
	Government follows subnational transfer rules	0
31	Enabling Environment	36
	Corruption (TI Corruption Perceptions Index & WGI control of corruption)	46
	Open Budget (IBP Index)	17
	Accountability & democracy (EIU Democracy Index & WGI voice and accountability)	12
	Government effectiveness (WGI)	60
	Rule of law (WGI)	45

■	Satisfactory	■	Weak
■	Partial	■	Failing