National Energy Administration to Supervise the Opening of Oil and Gas Pipeline Networks

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China's National Energy Administration (NEA) has recently been soliciting comments on draft measures that would open up oil and gas pipeline networks to third-party usage, according to Chinese news sources. Currently, energy companies operating in China must use their own pipelines to deliver oil and gas to consumers. The NEA measures would nix that restriction, and allow the use of pipeline networks by third parties after January 1, 2014.

Liberalizing spare capacity

Opening up the pipeline networks would prevent oil and gas companies from making duplicative capital investments, according to Deng Xiucheng, a professor at the China University of Petroleum. Instead of building costly pipelines, he said in a National Business Daily interview, third party oil and gas extraction companies could tap into existing pipeline networks at times of spare delivery capacity. Opening up the network would also contribute to the breakup of the pipeline monopoly in China, one goal of energy sector reforms that have been under discussion in the lead-up to the third plenum.

According to China Securities News, the goals of energy sector reforms include the release of import and export rights for crude oil and natural gas, the involvement of private capital in upstream oil and gas reserves, and the opening up of construction rights for midstream oil and gas pipelines and liquefied natural gas receiving and storage devices. According to China's chief energy information officer Han Xiaoping, these reforms will eventually lead to the partitioning of pipeline assets.

Partitioning companies not an immediate but long-term goal

However, it is still too early for pipeline partitioning, said Deng, as network construction is still in progress. While China's 12th Five Year Plan calls for the construction of 44,000 kilometers of pipelines for China's natural gas industry, so far only 10,000 kilometers have been laid out. Deng further said that while the monopolistic behavior of China's "big three" oil firms is a concern, the country is unlikely to see the partition of monopolized pipeline assets and the establishment of an independent pipeline network entity in the short term.

According to China Economic Net, China's "big three" oil firms are PetroChina Co. Ltd., China Petroleum and Chemical Corporation (Sinopec), and China National Offshore Oil Corporation (CNOOC). PetroChina alone owns about 70 percent of pipeline assets within the country.