China’s shift to the status of net oil import in 1993 began to steadily push oil security up the Chinese government’s policy agenda throughout the 1990s (Andrews-Speed 2010: 32). However, the continuing ability of international oil markets to meet China’s oil demand during this time served to lessen the perceived insecurity caused by growing oil import dependency (Andrews-Speed 2010: 32). Beijing’s attitude changed dramatically in 2003 in response to a range of energy security challenges that precipitated a sense of energy crisis in China. Internationally, the Iraq War and the subsequent increase in United States’ active presence in the Middle East “reshaped China’s basic conception of the geopolitics of oil and added urgency to its mission to lessen dependence on Middle East supplies” (Goodman 2005). At the same time, China’s booming economy led to a surge in energy demand, with the ever-widening gap between domestic oil production and consumption needing to be filled by imported oil. This prompted the securitisation of energy issues in China, and pointed to the need for the Chinese government to improve oil policy coherence and coordination for the purpose of securing foreign supply, as well as tackle demand-side initiatives aimed at reducing domestic oil consumption. Domestically, China suffered an energy crisis from late 2002 to 2005, where the country experienced widespread power shortages, which led to a marked increase in oil demand as diesel generators were run to maintain power for industrial enterprises (Yergin 2011: 210; Downs 2006: 6). The only immediate alternative to coal in order to satisfy the shortfall in supply for power generation was oil, which explains why China’s oil demand in 2004 jumped by 16 per cent, much more than the anticipated 7 to 8 per cent, causing a rapid increase in oil imports (Yergin 2011: 210).
Flaws in the extant institutional arrangements for governing the power industry, characterised by fragmented and unclear lines of authority (as a result of the decentralisation of political authority that occurred in the first Reform Era in China), were considered largely responsible for the power shortages and subsequent surge in oil demand (*China Daily* 2003, 2004c, 2004d and 2010b). In response the Chinese leadership pushed ahead with energy sector reform with renewed determination from 2003 onwards. Andrews-Speed (2010: 32 and 39) claims the shortfall in domestic energy supplies was the main catalyst for change in China’s energy policymaking apparatus, where two key reform priorities came to the fore: “recentralise control over the energy sector and provide for more coherent policymaking”. Kong (2006) argues that China’s energy institutions have been the main source of energy insecurity, suggesting that these power shortages and other energy problems were caused primarily by institutional failings.

Throughout the late 1980s and 1990s the role of guaranteeing China’s oil supply was left to the NOCs as detailed in Chapter 5. These state firms had become *de facto* leaders of the oil sector, both a consequence of decentralisation of political authority, and a legacy of the centrally planned system, wherein they had functioned as line ministries and continued to assume bureaucratic identities. CNPC in particular took the lead in oil policy formulation, which resulted in a narrow focus on oil supply, corresponding with its corporate strategic imperatives. This situation was increasingly viewed as insufficient to ensure the country’s energy security in light of the alarmingly rapid growth in China’s oil demand and the aforementioned domestic energy crises. In order to deal effectively with these energy challenges, China’s policymakers began to consider initiatives aimed at actively securing oil supply and achieving greater efficiency and overall reductions in oil consumption, rather than simply continue to focus narrowly on expanding oil production (Andrews-Speed 2010: 32; Meidan et al. 2009: 609). The emergence of more complex and interlinked energy problems and their proposed solutions meant the central government could no longer afford to leave oil policy in the hands of the NOCs, and began to reclaim and recentralise oil policy authority. Numerous policy documents from the turn of the millennium to the present day reveal Beijing’s preference for the defragmentation and recentralisation of the oil industry (and other energy sectors). Energy sector reform efforts since 2003 clearly have been oriented toward achieving this goal, and there has been much discussion on the apparent need for a unified energy ministry. Powerful institutions within the