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China Cuts Gasoline, Diesel Prices

By WAYNE MA

BEIJING—China cut its heavily regulated gasoline and diesel prices for the first time in six months, as easing global oil prices offer a tail wind to the world's No. 2 economy.

Xinhua/Zuma Press

China's retail gasoline prices are higher than those in the U.S.

By reducing the threat of inflation, the cut will give policy makers room to take further steps to rev up China's slowing economy.

Consumers have increasingly complained about the price of gasoline at the pump, which is higher than in the U.S. The latest cut would put the prices of gasoline and diesel at about US$4.28 and US$4.47 a gallon, respectively. They can vary locally.

The National Development and Reform Commission, China's top economic planning body, said Wednesday that it would lower its benchmark domestic retail gasoline and diesel prices by 330 yuan and 310 yuan (about $52 and $49) a metric ton, respectively—more than 3% off the current ceiling benchmarks of 9,980 yuan and 9,130 yuan a ton.

The price cut comes as China comes to a crossroads over its energy use. Inflation worries have ebbed in the past year as the global economic slowdown has eaten into demand for China's exports. Chinese officials taken the opportunity to pass on rising prices for oil, natural gas and electricity to businesses and consumers as it looks to make its economy more energy efficient.

Government officials in recent months also have launched programs in some areas to more closely link prices to market moves, increasing the impact of inflation but also forcing businesses to improve efficiency.

But lower energy prices could be coming at an opportune time. Between January and March, the Chinese economy grew 8.1%, substantially slower than its 8.9% rate of the preceding quarter—indeed, the slowest pace since the first quarter of 2009.

Higher gasoline prices complicate China's efforts to rebalance its economy to depend more on consumer spending and less on infrastructure and property spending, which economists both inside and outside the country say is unsustainable over the long term.

China last cut retail fuel prices in October, tracking a decline in global crude-oil prices. In February and March, as global prices rebounded, it raised retail prices—signaling that the government was relatively comfortable with the inflation outlook.

If sustained, downward price pressure could give Chinese policy makers an opportunity to revamp the system the government uses to determine when to adjust oil product prices, as consumers are more likely to accept a reforms when prices are lower. According to state media, some officials are considering changing the process.

The NDRC periodically adjusts retail fuel prices, taking into account both changes in global oil prices and domestic economic factors such as inflation concerns. China's pricing system allows domestic fuel prices to be adjusted when the moving average of a basket of international crudes changes by more than 4% over 22 working days.

Although the government is more likely to announce changes to the pricing system when global prices are falling, it is unlikely to do so before it announces a new progressive electricity price system for residential users, expected by June, said Miao Tian, an energy policy analyst at North Square Blue Oak. The government generally spaces out such reforms to cushion the price shock.

Ms. Tian said under the new pricing system, the NDRC will likely give major oil companies more flexibility to adjust prices below the ceiling without the NDRC's approval.

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