China moves to shutter bitcoin mines

Gabriel Wildau Published January 10, 2018 Financial Times

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A man walks out of a shop displaying a bitcoin sign during the opening ceremony of the first bitcoin retail shop in Hong Kong.

China is moving to eradicate the country's bitcoin mining industry over concerns about excessive electricity consumption and financial risk, reflecting authorities' judgment that cryptocurrencies are not a strategic industry.

A multi-agency task force has instructed provincial governments to "actively guide" companies in their respective regions to exit the cryptocurrency mining industry, according to a document seen by the Financial Times. The move to pressure miners follows China's shutdown of local bitcoin exchanges and its ban on initial coin offerings.

Miners create new bitcoins by solving complex maths problems whose solutions are used to validate new bitcoin transactions. Though ostensibly a computational task, the reliance on raw computing power makes the process more akin to industrial manufacturing than traditional high-technology businesses.

Many bitcoin miners have established operations in remote areas without even registering a company. Some have also skirted Chinese regulations that forbid end users from purchasing electricity directly from power producers rather than grid operators.

China mines about three-quarters of the world's bitcoins, according to Liao Xiang, chief executive of Lightningasic, a Shenzhen-based mining operation. Chinese miners have taken advantage of cheap electricity in regions rich in coal or hydroelectric power, including Xinjiang, Inner Mongolia, Sichuan and Yunnan.

The global industry accounts for 0.17 per cent of global electricity consumption, more than 161 individual countries, according to Digiconomist, a website that tracks the industry.

China's government is using state investment and an array of industrial policies in an effort to seize global leadership in strategic technology sectors such as artificial intelligence and robotics. But the crackdown on bitcoin miners reflects a judgment that cryptocurrencies do not merit state support.

Bitcoin mining "consumes a large amount of electricity and also encourages a spirit of speculation in 'virtual currencies'", according to the document. Mining operations contradict efforts to prevent financial risk and to discourage activities that "deviate from the needs of the real economy", it added.

The internet finance task force, which includes the People's Bank of China, has previously led regulatory tightening efforts on peer-to-peer lending and online consumer loans.

The order does not call on regional authorities to shut mining operations directly, but rather to squeeze them out by strictly enforcing policies on electricity consumption, land use, tax collection and environmental regulation.

The PBoC did not respond to a request for comment.

Chinese miners are now seeking ways to transfer their operations abroad, either by physically moving factories or selling their expertise. Cheap electricity and a cool climate, which helps prevent computers from overheating, are the main requirements. Canada, Iceland, eastern Europe and Russia are seen as the most promising destinations.

Industry participants say China was in any case never an especially suitable location for mining, even after accounting for electricity costs in selected regions that are lower than the national average. China's current dominance is mainly due to its well-developed supply chains for computer components used in the mining process.

"The difficulty is that setting up in other countries takes time and capital to build large-scale data centres," said Mr Liao. "It needs so much electricity. A typical industrial park doesn't meet the requirements."