

China's massive chemical plant relocations lack funding

SINGAPORE (ICIS)--China plans to complete a massive relocation of chemical plants away from cities by 2025, but financial constraints may hamper the project, which is estimated to cost Chinese yuan (CNY) 800bn (\$121bn), industry sources said.

The country intends to speed up the site transfer of plants manufacturing dangerous chemicals out of densely-populated city areas to industrial parks, based on a document released early this month by China's State Council.

For small- to middle-sized plants, the relocation must start in 2018 and be completed by the end of 2020, while bigger plants are ordered to begin the process in 2020 and finish by end-2025.

China classification of plants			
	Small	Medium	Large
Staff headcount	20-300	300-1,000	>1,000
Annual sales	CNY3m-20m	CNY20m-400m	>CNY400m

These plants can also be re-engineered to produce non-toxic products, or permanently close if relocation is not possible.

Local governments in China are being required to submit detailed work plans, including company lists and timeline for relocation before the end of this year.

Given the huge investment the project entails, the relocation of the plants has the ability to boost China's economic growth in the coming years, according to government officials.

The project is expected to translate to CNY400bn worth of demand for mechanical equipment, as well as generate about CNY60-80bn in information technology-related demand, based on estimates from China's Ministry of Industry and Information and Technology.

Lack of funding has been the primary problem that has been preventing the project from taking off in a significant way. Industry players are of the opinion that the Chinese government must foot the total bill, citing that in most cases, the plants listed for relocation have been operating at their sites for years before the cities expanded.

But China has a huge fiscal deficit, which stood at CNY2.83trn (\$427bn) in 2016, according to data from the country's Ministry of Finance. The preliminary budget deficit was about 3.8% of China's GDP, according to estimates by newswire agency *Reuters*.

Since 2014, provincial governments have been submitting to the central government a list of toxic chemical plants up for relocation and/or re-engineering, in line with China's embrace of more environmental-friendly policies.

China has stopped approving of construction or expansions of chemical plants in cities, requiring that all new projects have to be located in industrial parks.

However, the average implementation rate for relocations has been less than 20%, primarily due to lack of funds, industry sources said.

In the case of Shanghai Gaoqiao Petrochemical, which is a subsidiary of Chinese petrochemical giant Sinopec, initial discussions were held for its relocation in 2011, with completion originally expected by 2014-2015. But the negotiation process for the CNY60bn relocation took much longer than expected.

In mid-2016, the Shanghai government finally agreed to cover 90% of the cost by paying Sinopec CNY50bn for the relocation of Shanghai Gaoqiao Petrochemical but no further development was heard since, according to market sources.

Sinopec's other subsidiaries, namely, Yanshan Petrochemical and Guangzhou Petrochemical, had also previously received request to transfer their production sites, which are located near cities.

Based on the new schedule drafted by the State Council, these super big plants will have to complete their relocation by 2020.

Industry sources said that actual financial support from the government was usually less than 10% of the total capital required, and comes in the form of land, low interest rates on loans and tax breaks. These were deemed not enough to speed up the project rollout.

"It's too difficult for companies and governments to agree on terms of relocating. Who should pay for the bill? There's no such a law that defines ... responsibilities. No one would compromise," said a source from the economic and information commission of Sichuan province in southwestern China.

Plants up for relocation with an original investment or current value of less than CNY100m receive no cash subsidies from the government.

Some 51 chemical plants in Sichuan need to be relocated, requiring a total capital outlay of CNY23.8bn, according to media reports. Only two of the total have completed the move, with two others underway, while the rest have no definite timelines.

In Shandong province, the biggest chemical production base in China, some 185 plants have been identified for relocation, 70 of which have started the process, according to a local government official.

The eastern province houses 9,505 chemicals producers, of which 2,485 are categorized as producing dangerous chemicals, the official said.

"The central government has agreed to provide financial support valuing CNY57.6bn for 42 of the relocations, but only 11 have materialized and the rest still pending. In one word, money decides the pace," he said.

In Hubei province in central China, relocation projects are being stumped by lack of actual access to bank loans following assessment of risks, a local government official said.

"It's a systematic task - very complicated. We all know what's the problem, but, just no[t the] way to fix it," the official said.

In the northern province of Hebei, which is adjacent to Beijing and where pollution is very severe, has moved quicker to implement the central government's plan by providing both a list and timeline in August for plants that need to be relocated.

Based on its plan, a total of 35 plants will move out of cities before 2020. For 15 of them, the deadline was before December 2018, with three expected to complete the process as soon as March 2018.

But most of the companies in the list have yet to start the process, sources from the companies admitted.

In the case of Hebei Xinhua Holdings, it will have to spend nearly CNY1.5bn to relocate its production and it simply does not have the needed capital, a company source said.

It operates a 200,000 tonne/year [methanol](#) plant; a 50,000 tonne/year formaldehyde plant; and a 150,000 tonne/year of hydrogen peroxide plant at the Hebei capital city of Shijiazhuang and is being required to complete relocation by October 2019.

"We're actually not in the very central area but in a county town. The industry park we're moving to is just 4-5km away. I'm bewildered of the necessity to move," the company source said.

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