

# Is Your China Chemical Plant in Danger of Being Shut Down'

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A particularly dangerous and damaging factory explosion in a chemical industrial park in Xiangshui County of Yancheng in eastern China's Jiangsu province happened on March 21, 2019 (??????????"3-21"????????????). According to the Xinhua Net report published on November 15, 2019, 78 people were killed, 76 people injured badly, and 640 people were hospitalized, which caused a direct economic loss of RMB 1.986 billion.<sup>1</sup>

Recent safety crackdowns and environment inspections are sending shockwaves through the Chinese chemicals sector. Nine chemical parks are expected to begin the process to be closed or restructured out of the chemical industry in 2019. This alert highlights important considerations for companies that operate chemical plants in China.

On April 27, 2019, the Jiangsu Province Government General Office ("Jiangsu General Office") officially promulgated the Jiangsu Province Chemical Industry Safety and Environment Improvement and Modernization Plan ("Jiangsu Chemical Industry Plan"), ??????????????????????(????2019?96?), but the Jiangsu Chemical Industry Plan did not list detailed figures of required chemical plants closings. Instead, it lays out closing standards whereby if the chemical plants cannot meet the technology and environmental requirements, they will be closed or modernized. Although there is no clear number enunciated on the expected chemical plant closings, the regulatory trend is unmistakable.

In addition, on April 1, 2019, the Jiangsu General Office promulgated the Jiangsu Province Chemical Industry Improvement and Modernization Plan (Draft) (???????????????? (?????)?), which aims to reduce the Jiangsu Province chemical plants to 1,000 before the end of 2022. If this plan was adopted, over 1,000 chemical plants would need to be shut down<sup>2</sup>. This draft was ultimately not adopted, but it implies the expected scope of the Jiangsu Provincial Government's regulatory changes on the chemical industry.

On September 20, 2019, the Department of Implementation and Modernization of Environment and Security of the Provincial Government of Jiangsu (????????????????????) also published the Notice on Jiangsu Province Chemical Industry Safety and Environment Improvement and Modernization 2019 Working Goals? "*Jiangsu Chemical Working Goals*" ???????2019??(???? 2019?3?) ?in order to close or upgrade the plants that have outdated technology, disastrous environmental impacts and harmful production. According to the Jiangsu Chemical Working Goals, a total of 1,431 companies would be "phased out", 267 will have to cease production completely for the modernization and 1,302 will have to be completely overhauled within a limited period of time. Furthermore, 77 companies must be relocated and 945 modernized.

The goal of the Jiangsu Chemical Working Goals is to close 579 chemical companies. Nine chemical parks are expected to be closed or restructured out of the chemical industry in 2019. The following chemical parks are affected:

- Jiangyin High-Tech-Chemie-Cluster (Wuxi)
- Chemie-Industrie-Cluster Kunshan Zhangpu East Industrial Park (Suzhou)
- Haimen Lingdian Chemical Park (Nantong)
- Qidong Binjiang Fine Chemical Park (Nantong)
- Chemie-Cluster der Hongze Economic Development Zone (Huaian)
- Xiangshui Ecological Chemical Park (Yancheng)
- Chemical Cluster of Funing Hi-Tech Industry Development Zone (Yancheng)

- Dantu District Gaozi Chemical Park (Zhengjiang)
- Shuyang Circular Economy Industrial Park (Suqian)

Jiangsu is not the only province closing chemical plants, Shandong, Hubei, Guangdong and Henan have also issued policies to modernize the chemical and petrochemical plants located in their provinces.

## Other Provinces:

- Shandong Province: From July 2018 to November 2019, the cities of Qingdao<sup>3</sup>, Jinan<sup>4</sup>, Yantai<sup>5</sup> and Zibo<sup>6</sup> issued several notifications in local governments' official websites, indicating plans to close chemical plants. According to incomplete statistics contained in the local news, over 1,000 chemical plants are expected to be shut down.
- Hubei Province: On June 8, 2018, the Hubei government issued the Work Plan for Modernizing Chemical Plants Along the River (????????????????????(????2018?24?)). The Work Plan indicates that before the end of 2025, the government will complete the "modernization" of chemical plants within 1-15 kilometers along the Changjiang River and nearly 600 chemical plants are expected to be closed or modernized.
- Guangdong Province: On December 29, 2017, the Guangdong government issued the Work Plan for Modernizing Chemical Plants in Populated Urban Areas (????????????????????????????????(????2017?754?)). This Work Plan indicates that, before the end of 2025, the chemical plants in the area that do not meet the safety standards and distance for health protection, especially toxic chemical producers, are expected to be closed or modernized. Currently, there are no detailed figures of closing chemical plants from official reports or news reports pursuant to this Work Plan yet.
- Henan Province: On December 29, 2017, the Henan government issued the Guidance on Promoting the Construction of Heavy Polluting Chemical Plants in Urban Areas (????????????????????????????????(????2017?167?)). This Guidance indicated that, before the end of 2025, the chemical plants that do not meet the safety standards and health protection distance specified in the Guidance will be closed or modernized. It is reported that 25 chemical plants are expected to be closed by the end of 2018<sup>7</sup>. Unfortunately, on July 19, 2019, a chemical plant in Yima, a city of Henan Province, exploded. Although there is no official information, the local government is expected to quicken the pace of closings and modernization of the local chemical plants as a result.

Note that the chemical sector accounts for nearly 14 percent of China's gross domestic product (GDP) for 2018<sup>8</sup>. According to the National Bureau of Statistics, total chemicals industry profits were down 11.6 percent year-over-year for the first seven months of 2019<sup>9</sup>. According to news, nearly 20 major listed chemicals groups announced production halts between March and June of 2019<sup>10</sup>.

## If You Have a Chemical Plant in China, You Should Consider the Following:

- **Be familiar with local policies.** The staff of the Jiangsu Chemical Park reports that the Chemical Park will take an extended time to close the chemical plants and that the local government is exploring details of the closures/modernizations. The plant closures are not as eminent as initially expected. Thus, it's important for companies with chemical plants in China to understand the latest policies and regulations of your LOCAL regulator. There is often room for negotiation, but you need to work with the local regulatory authority.
- **Do a compliance check on your chemical plant.** China plans to close chemical plants for environmental and safety reasons. Outdated technology, highly polluting and energy-intensive chemical plants will be weeded out step-by-step. Do a self-inspection in advance to understand what the risk profile is for your plant to be closed or modernized.
- **Stay one step ahead of the regulation** – draw up a plan for your chemical plants in China and change, as much as reasonably practicable, with the regulation. Seek professional help if necessary.

We will continue to monitor the situation closely, in particular regarding the implementation rules for closing Chinese chemical plants. It will be important for parties potentially affected by these reforms to remain aware on how the new regulatory requirements might negatively impact the China chemical and petrochemical industry.

Haynes Boone has experience in assisting chemical companies to manage their China exposure. Please contact one of our specialists for further information.

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<sup>1</sup> [http://www.gov.cn/xinwen/2019-11/15/content\\_5452468.htm](http://www.gov.cn/xinwen/2019-11/15/content_5452468.htm)

<sup>2</sup> <http://finance.sina.com.cn/roll/2019-04-05/doc-ihvhiqax0220868.shtml>

<sup>3</sup> <http://www.qingdao.gov.cn/n172/n24624151/n24625275/n24634084/n24634126/190918164136700286.html>,  
<http://www.qingdao.gov.cn/n172/n24624151/n24625275/n24634084/n24634126/190909145339405426.html>

<sup>4</sup> [http://jnjaxw.jinan.gov.cn/art/2019/9/18/art\\_24791\\_3300968.html?xxgkhide=1](http://jnjaxw.jinan.gov.cn/art/2019/9/18/art_24791_3300968.html?xxgkhide=1) ,  
[http://jnjaxw.jinan.gov.cn/art/2019/10/21/art\\_24791\\_3388613.html?xxgkhide=1](http://jnjaxw.jinan.gov.cn/art/2019/10/21/art_24791_3388613.html?xxgkhide=1)

<sup>5</sup> [http://www.yantai.gov.cn/art/2019/8/6/art\\_11748\\_2485320.html](http://www.yantai.gov.cn/art/2019/8/6/art_11748_2485320.html)

<sup>6</sup> [http://www.linzi.gov.cn/art/2018/8/3/art\\_5304\\_1459125.html](http://www.linzi.gov.cn/art/2018/8/3/art_5304_1459125.html),  
[http://www.linzi.gov.cn/art/2019/4/22/art\\_5304\\_1658202.html](http://www.linzi.gov.cn/art/2019/4/22/art_5304_1658202.html)

<sup>7</sup> [http://www.sohu.com/a/239612498\\_99964894](http://www.sohu.com/a/239612498_99964894)

<sup>8</sup> <http://www.scio.gov.cn/xwfbh/xwfbh/wqfbh/39595/41735/index.htm>

<sup>9</sup> <http://www.cpcifdata.org.cn/template/Preview.jsp?ChID=0402&NewsID=2019060556>

<sup>10</sup> <http://www.chinanews.com/cj/2019/07-08/8886774.shtml>