

Alerts & Publications

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China Broadens Environmental Enforcement Plant Closures

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Consistent with President Xi Jinping’s “Blue Skies” initiative, first announced when he came to power in 2013, the last year has seen a dramatic increase in pollution enforcement and related facility closures.

Beginning in the spring of 2017, the national environmental agency deployed a force of 5,000 inspectors on a yearlong program to complete visits to manufacturing facilities primarily in coastal cities and provinces, resulting in fines, penalties, imprisonment and, in many circumstances, facility closures pending installation of pollution controls, submission of corrected permit applications and payment of sanctions. During a seventh round of inspections conducted in July 2017, for example, 30% of 5,322 manufacturing sites were found to be in significant non-compliance.

In a related development, in August 2017, the China State Council (equivalent to the US Cabinet) issued guidelines for the closure and/or relocation of hazardous chemical manufacturing facilities in densely populated areas. The move came, in part, as a response to highly publicized accidents, such as the August 2015 explosions at a container storage station in the Port of Tianjin that killed 173 and injured hundreds of others in the industrial zone outside of Beijing. The guidelines, together with the Blue Skies enforcement program, have thus far resulted in the closure of an estimated 150,000 facilities just in the cities of Tianjin, Chengdu, and Beijing, and the provinces of Hebei, Henan, and Shanxi (over 30 cities and provinces have thus far been targeted). Examples include the relocation of an AkzoNobel Chemical peroxides facility and Rhodia/Solvay synthetic sandalwood plant. Oftentimes, the closed facilities are already in industrial

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zones or on “chemical platforms,” which are nonetheless deemed unsuitable due to their proximity to residential areas (an estimated 10,000 areas originally zoned industrial have been reduced to fewer than 2,000). The closures and enforcement actions have resulted in widespread disruption of supply chains.

While the noted initiatives have thus far centered around energy generation and chemical/pharmaceutical facilities, their scope is poised to broaden, especially as, on March 17, 2018, the Ministry of Environmental Protection was reconstituted as the “Ministry of Ecology and Environment” (MEE) with expanded jurisdiction that now includes agriculture, livestock, marine pollution, and greenhouse gas generating sources. Li Ganje, Minister of MEE, has gone on record indicating that enforcement efforts will be expanded to these new sectors in the short term, including focus on non-point sources of water pollution.

The China enforcement and relocation programs have not been without immediate short term benefit: A recent study by the University of Chicago reports 35% and 29% reductions in air pollution for Beijing and Shijiazhuang, respectively. In the short term, businesses with current or contemplated operations (including joint ventures) in China need to carefully consider the impact of the new enforcement regime. Notably, assurance that China facilities comply with strict international environmental, safety, and health benchmarks is no longer a guarantee against disruption of operations.

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