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Location, Location, Location

How to Search for a Chemical Site in Asia

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Location, Location, Location

How to Search for a Chemical Site in Asia



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With the growing importance of Asia for global chemical sales, many Western chemical companies consider setting up local production in China or other Asian countries. Finding the right location, however, is not straightforward as Asia offers a huge range of potential locations. A wide range of aspects including location of major customers, feedstock availability, politics, taxes, infrastructure, staff availability, protection of intellectual property and production costs have to be considered.



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Given the huge range of criteria for site selection, the first step is to prioritize these criteria. For commodity-type chemicals, raw materials supply clearly stands out as the key criterion to distinguish between suitable and unsuitable production sites (figure 1).

Supply of Raw Materials

The economics of commodity investments typically strongly depend on overall costs,

while investments in specialty chemicals need to be oriented more strongly towards the location of customers.

Regarding raw materials supplies, site selection includes answering a number of specific questions, e.g.

- How stable is the supply?
- How stable are prices?
- How many raw materials suppliers are there?
- Is the raw materials supplier potentially also a competitor?

Once the long list of sites has been reduced and prioritized by answering all these questions and eliminating those sites with insufficient raw materials supply, it is time to look at infrastructure and operational costs.

Infrastructure And Operational Costs

At this point, the concept of chemical parks gets very relevant. In Asia, there are many types, differing by the level of devel-

opment and the degree by which they manage the infrastructure for the chemical companies. During our numerous site visits over the last years, we have seen everything, from chemical parks that can compete with the most modern European chemical parks to sites that have not yet even heard of the concept of a chemical park. At some chemical parks, investors only deal with the chemical park management for all their infrastructural needs, while at others they need to deal with, e.g., the power, logistics etc. companies separately, thus increasing complexity.

Understanding the design of different chemical parks will require both site visits and developing as well as mailing out questionnaires to the relevant sites. These questionnaires are a valid way to enquire about technical and infrastructural aspects to a degree of detail, which cannot be exhaustively covered by a site visit alone. The questionnaires need to be developed specifically based on the project requirements, with input from engineers and chemists of the client. The quality and speed of the replies to the questionnaire is a first indication of the professionalism of the site management, and thus already an important part of the site evaluation.

Getting the 'Look and Feel'

The site visits themselves may be seen more as a way to get the "look and feel" of a site than to get a conclusive overview, which is almost impossible in a one day visit, but they often still yield valuable impressions, for example with regard to

- Security aspects – how easy is it to enter the site? A site that is well-secured with barbed wire and good security controls will be rated much better than a site that is accessible to anyone
- Safety – smell of critical chemical substances on site? Are workers behaving responsibly?
- Cleanliness – is there a lot of waste material lying around?
- Maintenance – do the pipelines look old and run down, or well-maintained?
- Plot location – where is the plot dedicated for the company? How is it located with regard to power supply, steam supply etc.?
- Port – how many terminals are there? Is it a deep-sea port? Are liquid jetties accessible and is the container turnover capacity sufficient to host your project?

Site visits also offer the chance for talks with (Western) companies, which already have operations on the site. Very often, some connections can be found via old

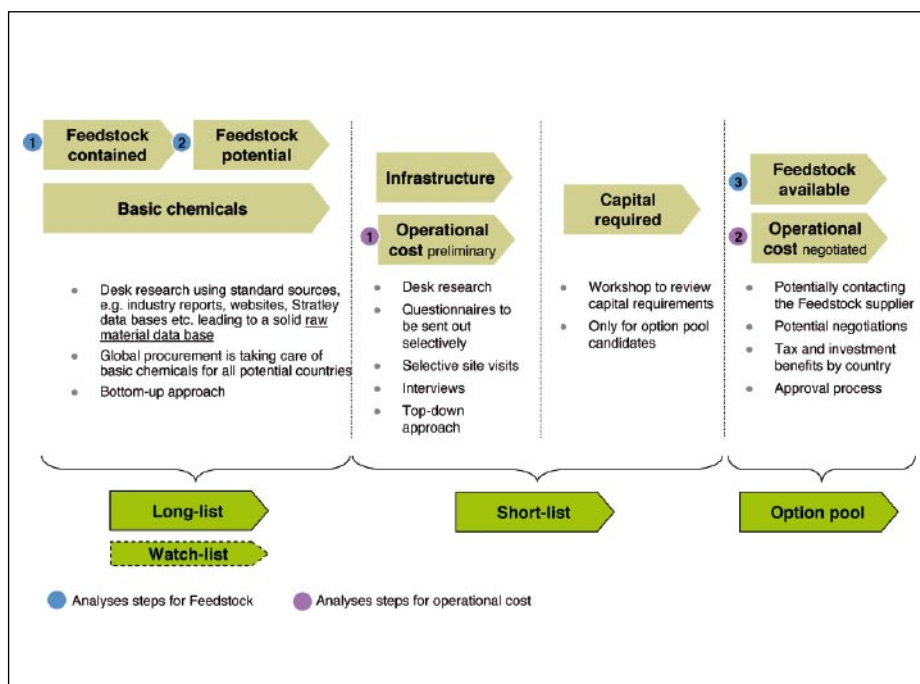


Fig. 1: Analysis Sequence for Production Site Selection

university friends, board members, etc. between the company examining the site and a company already established there. This yields honest insights into the pros and cons of a site and helps double-checking own impressions.

The Site Evaluation

After all these evaluation steps, gradually a few favourite sites will establish themselves among the selection team.

Note that aspects such as comparisons of the raw materials prices only now play a major role in the site evaluation. Furthermore, at this stage individual, additional aspects may become relevant – in one of our projects, one site was eliminated as it turned out that the site was more than 50 km away from the next international school.

These are only the most important aspects of a complex topic like site selection. Our experience shows that there is no universal approach. Nevertheless, we would like to point out some common mistakes in the search process:

- Do not focus on a few popular sites only. In our experience, clients in the chemical industry often already have strong opinions on world regions beforehand. For the sake of a fast solution, they tend to quickly eliminate sites and thus miss opportunities, particularly at sites that are somewhat off the beaten track.
- Do not be too convinced by knockout criteria! Even undisputable facts can sometimes be overrated. For example, intellectual property protection undoubtedly is a sensitive issue in China.

However, it is a criterion that can be overrated. The successful operations of BASF in Nanjing and Bayer in Shanghai show that it is an issue that can be dealt with responsibly if enough attention is paid to it.

- Ignorance regarding the capabilities of emerging regions such as Asia or the Middle East is another common mistake. The technological level of the chemical parks particularly in the most recently set up parks, e.g., in Shanghai or Nanjing is extremely high – they exclusively use the latest technology. This is often a big surprise for our Western clients. In addition, the workforce in many Asian centers is extremely skilled.
- Be aware, that client employees will look at sites with one single question in the back of their mind: "Will I be willing to spend the next five years with my family at this site?"

As chemical investment projects often cover hundreds of millions of dollars, mistakes such as the ones described above should be avoided. This is particularly true as chemical plants sometimes have lifetimes of more than 50 years. Any mistakes made in the site selection will still be felt when the person who made the decision has long retired.

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