

Between ambition and reality

China has taken many encouraging steps towards environmental protection, many of which have implications for the chemicals industry

By **Kai Pflug**

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China's fast economic growth has been accompanied by massive environmental problems. As a consequence, the Chinese government has taken substantial steps towards improving the situation. These range from abstract to very detailed:

- The State Environmental Protection Agency (SEPA) has been upgraded into a ministry (the Ministry of Environmental Protection, or MEP) in March 2008. This should strengthen green legislation and enforcement, as it puts the institution on a more even level with other ministries.
- China has set itself ambitious emission reduction targets, to be enhanced by high spending on environmental protection.
- The government has recently banned the production of ultra-thin plastic bags, and banned shops from giving away free plastic bags.
- A timetable has been set for pollution control at lakes, requiring sewage treatment plants to install nitrogen and phosphorus removal facilities by the end of 2010 and fines for dumping wastewater have been increased.
- Individual companies violating environmental laws may be excluded from trade fairs, prohibited from getting bank loans or even closed.
- In some of the more developed regions of China, chemical companies are being moved out of urban areas. For example, in Shanghai chemical companies are forced to move to chemical parks.

Still some resistance

However, while the central government as

represented by SEPA (now the MEP) stands firmly behind environmental protection, there often is strong resistance from local and provincial governments.

This is obvious in official SEPA statements. In those, SEPA criticises many projects quite openly, but seems not to have sufficient power to stop them. A prominent deputy director of SEPA, Pan Yue, is quoted as follows: "Some of the projects did not apply for government approval before beginning construction, and some local governments provided highly-polluting enterprises asylum in the blind pursuit of economic development." In one example, SEPA complains about a polluting company that has not stopped production despite SEPA intervention: "Haixin Iron and Steel was ordered to stop the project and apply for approval from environmental authorities. But it has so far failed to comply with the ruling." In another example, SEPA sent a company named Zhenxing Group in Yuncheng, Shanxi province three notices asking them to stop an electrolytic aluminium project emitting chemical pollutants close to residential areas. All three were simply ignored.

Resistance from provincial leaders is also suspected to have stopped an earlier SEPA initiative to quantify the environmental effects of China's growth in a number called "Green GDP". While a first 2004 calculation estimated real growth to be reduced by about 3 percent due to the concurrent environmental damage, a second report never materialised. The researchers behind the Green GDP project suspect provincial leaders of being responsible for this. It remains to be seen whether, now that SEPA has been upgraded to a ministry-level organisation, it will be taken more seriously by companies and provincial governments.

In addition, on a very concrete level there also have been no major improvements with regard to some important issues. For example, at Lake Tai another outbreak of blue-green algae occurred on a large scale in 2008. Furthermore, many official Chinese government reports conclude that the environmental pollution of rural areas is getting worse rather than better.

The central government has provided several tools to enforce environmental protection. In particular, a substantial percentage of provincial and regional government officials' career success now depends on their achievements in saving energy and protecting the environment. However, there appears to be a tendency amongst officials to believe it is sufficient to pay lip service to these statements; that real career success still depends solely on economic progress.

Chemical complications

The measures taken by the Chinese government have led to the closure of many small chemical companies. In the Lake Tai region, more than 1,000 small chemical plants were shut down in 2007.

Large Chinese companies tend to

be less affected as they have more influence and can more easily install modern technology. However, changes in the tax system (eg lower export rebates for specific chemical products) can also affect profitability.

For Western companies, the benefits of tightened environmental policies tend to outweigh the disadvantages. Most Western companies already operate within Western environmental standards in China and thus do not face substantial additional costs from these changes. They may also benefit from market consolidation caused by these policies, particularly on smaller local companies. In some segments they may also be the only ones with the technology required by raised environmental standards.

Western companies also need to be aware of the risks of these changes. Some Western chemical companies are being affected by governmental requests to move chemical production out of urban areas. In addition, any M&A activities within China need to take the environmental background of the targets into account. Finally, Western companies are often suppliers of local chemical companies. Any policy affecting local

companies therefore may also affect Western companies via their customer base. Whenever Stratley supports Western companies in developing strategies for China, we are careful to take the effects of China's developing environmental policy into account.

The good guys will win

While concern for environmental protection is definitely growing in China, it still faces an uphill battle. In less developed provinces, in the countryside and on local levels, environmental awareness remains limited and there is a stronger interest in fast economic development as opposed to environmental sustainability. The key driver for environmental awareness is the central government, while private consumers and citizens play a more limited role than in Western countries.

Personally I have no doubt China will eventually be as environmentally aware as Western countries – it will just take time. In all likelihood, European chemical companies will benefit from this as they generally already have access to the required production technology and will also profit from rising quality awareness.

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