China Petrochemical Plant Starts Shutdown

Reuters

BEIJING | (Reuters) - A petrochemical plant in the northeast Chinese city of Dalian, ordered to shut after large-scale public protests over the weekend, has begun shutdown procedures, state media said on Tuesday, citing local officials.

A full and prolonged closure of the 700,000 ton-per-year paraxylene plant, which is China's leading importer of heavy naphtha, would mean additional supply would become available in the Asian market, which is now short of heavy naphtha.

Authorities in Dalian in northeast Liaoning province ordered Dalian Fujia Petrochemical Co Ltd to shut on Sunday after thousands of local residents demonstrated, demanding relocation of the factory at the center of a toxic spill scare.

Although the order was issued on Sunday, the complexity of the production cycle meant that the plant could not stop immediately due to safety concerns, state news agency Xinhua said, citing Dalian government authorities.

An industry source said on Monday that the plant was running as normal.

Xinhua did not give further details about how long the plant will be shut or any indication of a timeline for the plant relocation. But an oil industry official familiar with PX plants said it takes 24 hours to turn off production.

The Fujia plant, jointly owned by local government-backed Dalian Chemical Group and private real estate firm Fujia Group, imports 100,000-120,000 tons of naphtha a month, with term supply agreements with Iran and Papua New Guinea.

"If it defers the entire shipment of 100,000-120,000 tons a month of naphtha, it will impact the market, which is currently short of heavy naphtha," said a Singapore-based trader.

For now, traders are looking past the shutdown and say a plant of this size normally would have storage capacity of up to three weeks of production before being forced to defer shipments.

Cracks, the profit or losses of refining Brent crude, for front-month first-half October were at a two-week high of $118.93 a ton premium on Tuesday.

"Once we see Fujia's naphtha flowing out to the spot market, we will see the impact," said another trader.

Oil industry officials questioned how long the shutdown would last and if and when the plant, a major taxpayer to the local government, would be relocated.

"How are they going to relocate? It will be hugely costly," said one official familiar with PX facilities.

Heavy naphtha can be processed into gasoline or used as feedstock to produce paraxylene, an intermediate for making polyester.

PX can cause eye, nose and throat irritation, and chronic exposure may result in death. State media said earlier this month that Dalian residents fled when a storm whipped up waves that burst through a dyke protecting the plant. The break was later repaired.

Reporting by Suilee Wee and Chen Aizhu in Beijing, and Seng Li Peng in Singapore, editing by Jane Baird

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