

Implementation Measures for Capacity Replacement in the Steel Industry

(Draft for Comments)

Ministry of Industry and Information Technology
People's Republic of China

Attachment 1 — October 2025

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1 Executive Summary

This document presents revised implementation measures for capacity replacement in China's steel industry. The policy aims to reduce total steel production capacity while improving quality, optimizing industrial structure, and promoting low-carbon development. Key changes include:

- Stricter capacity replacement ratios (minimum 1.5:1 reduction)
- Phase-out of inter-enterprise capacity trading by 2027
- Enhanced restrictions on capacity transfers to key regions
- Incentives for electric arc furnace and hydrogen metallurgy development
- Strengthened enforcement and time limits for project completion

2 General Provisions

2.1 Article 1: Purpose and Legal Basis

To earnestly implement the spirit of the 20th Party Congress and its second, third, and fourth plenary sessions, implement the deployment of the National New Industrialization Promotion Conference, innovate capacity governance approaches, accelerate the reduction and quality improvement of existing capacity, structural optimization and transformation and upgrading, promote the balance of market supply and demand, and drive high-quality development of the industry, these Measures are formulated in accordance with:

- Opinions of the CPC Central Committee and State Council on Doing a Good Job in Carbon Peak and Carbon Neutrality under the Complete, Accurate and Comprehensive Implementation of the New Development Concept
- Notice of the State Council on Issuing the Action Plan for Carbon Peaking Before 2030 (State Council [2021] No. 23)
- Opinions of the State Council on Resolving Excess Capacity and Achieving Development Through Overcoming Difficulties in the Steel Industry (State Council [2016] No. 6)

2.2 Article 2: Scope of Application

These Measures apply to projects involving new construction, reconstruction, expansion, and on-site rebuilding and major overhauls of iron-making and steel-making smelting equipment by enterprises of all ownership types within the territory of the People's Republic of China.

2.3 Article 3: Terminology and Definitions

Unless otherwise specified, the terms used in these Measures are defined as follows:

- **Equal replacement:** Construction capacity equals retired capacity
- **Reduced replacement:** Construction capacity is less than retired capacity
- **Replacement ratio:** The ratio of retired capacity to construction capacity

2.4 Article 4: Key Regions

Key regions referred to in these Measures are defined according to the Notice of the State Council on Issuing the Action Plan for Continuous Improvement of Air Quality (State Council

[2023] No. 24) (see Attachment 1). Where other State Council documents provide otherwise, those provisions shall apply.

3 Capacity Eligibility and Sources

3.1 Article 5: Eligible Capacity

Smelting equipment used for capacity replacement must be either:

1. Listed in the steel industry smelting equipment inventory reported by the State-owned Assets Supervision and Administration Commission and provincial governments to the State Council for record-filing in 2016 (hereinafter referred to as the State Council List), or
2. Legally compliant smelting equipment built since 2016

The following six types of capacity shall not be used for replacement:

1. Capacity listed in steel capacity reduction tasks or retired capacity that received subsidy fund support
2. Capacity where smelting equipment was not actually built and put into production before the provincial industrial and information technology authority announced the capacity replacement plan
3. Backward production equipment capacity classified as obsolete in the Industrial Structure Adjustment Guidance Catalog
4. Capacity where all iron-making and steel-making equipment of an enterprise operated for less than 90 days per year for two consecutive years after implementation of these Measures
5. Smelting equipment capacity in non-steel industries such as casting, forging, and ferroalloys
6. Auxiliary production equipment capacity such as vanadium extraction converters, secondary refining furnaces, and induction furnaces; dephosphorization converter and argon oxygen decarburization (AOD) furnace capacity that has not undergone capacity replacement procedures or is not listed in the State Council List

3.2 Article 6: Capacity Sources and Timeline

Before [Date] 2027 (within 2 years from implementation of these Measures):

- Iron-making and steel-making capacity between different enterprises (groups) nationwide may implement capacity replacement

From [Date] 2027 onwards:

- Capacity replacement between different enterprises (groups) nationwide shall no longer be implemented
- First-level legal entities of different enterprises (groups) may achieve capacity integration and transfer through comprehensive and substantive mergers and acquisitions
- Capacity optimization and integration between different subsidiaries of the same enterprise (group) first-level legal entity is encouraged

Important principles:

- Iron-making and steel-making capacity must strictly correspond one-to-one with smelting equipment
- Smelting equipment and capacity cannot be separated
- Capacity of the same smelting equipment can only be used once for the same project

3.3 Article 7: Mergers and Acquisitions

To qualify for merger and acquisition replacement ratio policies, the following conditions must be met:

1. **Substantive merger and acquisition** means achieving actual controlling stake in accordance with the Company Law and other laws and regulations, completing changes in legal person or legal person affiliation, equity relationships, actual controller, articles of association, etc., and properly resolving issues such as creditor's rights, debts, and employee placement
2. Where iron-making, steel-making, and steel-rolling processes belong to the same enterprise (group), are located in the same production plant, share common auxiliary facilities, and have close upstream-downstream production relationships in the steel production process but belong to different legal entities, the merger and acquisition must include all iron-making, steel-making, and steel-rolling processes as a whole
3. Splitting iron-making, steel-making and other processes (workshops) into multiple legal entities by the same actual controlling entity does not qualify for merger and acquisition replacement ratio policies

3.4 Article 8: Capacity Verification

For legally compliant smelting equipment built in and after 2016:

- Retired capacity quantity shall be verified according to the Capacity Calculation Table (Attachment 2)

For steel industry smelting equipment in the State Council List:

- Retired capacity quantity shall be verified according to the capacity quantity in the State Council List
- Where equipment and capacity in the State Council List do not correspond one-to-one, relevant smelting equipment shall be allocated State Council List capacity proportionally according to the Capacity Calculation Table
- For capacity replacement plans announced on provincial industrial and information technology authority (central enterprise) portals before August 23, 2024, the announced situation shall prevail

Replacement construction smelting equipment capacity shall be verified according to the Capacity Calculation Table.

Enterprises building dephosphorization converters must undergo capacity replacement procedures.

Case-by-case reporting to MIIT required for:

1. Verifying capacity quantity of non-blast furnace iron-making equipment
2. Feasibility and equipment capacity quantity for building vanadium extraction converters

3. Verifying capacity quantity of rotary kiln-submerged arc furnace (RKEF) equipment
4. Feasibility and equipment capacity quantity for electric arc furnace steelmaking projects using special smelting processes such as electroslag remelting, vacuum arc remelting, vacuum induction melting, producing high-end special steel characterized by multiple varieties, small batches, and high technical content
5. Feasibility and equipment capacity quantity of other non-conventional smelting equipment

4 Regional Requirements and Replacement Ratios

4.1 Article 9: Regional Requirements

- **Yangtze River Economic Belt:** New construction and expansion of steel smelting projects outside compliant industrial parks is prohibited
- **Key Regions:**
 - Strictly prohibit any increase in total steel capacity
 - Strictly prohibit transfer of steel capacity from non-key regions to key regions
 - Strictly prohibit transfer of steel capacity between different key regions
- **Provinces/cities with explicit national steel capacity total control targets:** May not accept steel capacity transferred from other regions

4.2 Article 10: Replacement Ratios

Standard ratio for all provinces:

- Iron-making and steel-making capacity replacement ratio shall be no less than **1.5:1**

For compliant capacity newly acquired through mergers and acquisitions after June 1, 2021:

- Iron-making and steel-making capacity replacement ratio shall be no less than **1.25:1**

Equal replacement (1:1) permitted for three scenarios:

1. On-site major overhaul and rebuilding projects of iron-making and steel-making equipment within the plant that do not change the smelting equipment type, nominal capacity, quantity, or location — equal replacement implemented according to original equipment nominal capacity with capacity remaining unchanged
2. Electric arc furnace steelmaking projects using special smelting processes such as electroslag remelting, vacuum arc remelting, vacuum induction melting, producing high-end special steel characterized by multiple varieties, small batches, and high technical content
3. Iron-making and steel-making projects constructed in Qinghai and Tibet regions

5 Low-Carbon Development Incentives

5.1 Article 11: Low-Carbon Development

Enterprises are encouraged to efficiently utilize scrap steel resources, develop electric arc furnace steel in an orderly manner, develop hydrogen metallurgy in suitable regions, and implement green low-carbon technological transformation of existing iron-making and steel-making equipment.

Special provisions for low-carbon projects:

1. Within the same enterprise (group), projects retiring converters to build electric arc furnaces while simultaneously retiring supporting blast furnaces may implement **equal replacement of steelmaking capacity**, but the retired supporting blast furnace iron-making capacity shall not be used for replacement
2. Projects where both retired and construction smelting equipment are electric arc furnaces may implement **equal replacement of steelmaking capacity**
3. Projects retiring existing blast furnaces and using low-carbon process technologies such as hydrogen metallurgy to build iron-making projects, where the carbon emission reduction ratio is no less than 60% compared to blast furnace processes, may implement **equal replacement of iron-making capacity**. The carbon emission reduction ratio of blast furnace processes shall be calculated based on the carbon emission balance value of blast furnace processes in the steel industry carbon emission trading market in the previous year

6 Procedures and Administration

6.1 Article 12: Replacement Plans

Enterprises building steel smelting projects must scientifically assess supply and demand situations, avoid inefficient investment, and formulate capacity replacement plans (Attachment 4) in accordance with relevant provisions of these Measures.

Plans must include construction project and retirement project details, clearly specifying:

1. **Construction project:** Location, enterprise name, proposed smelting equipment model, quantity, capacity, planned start and production dates
 - For stainless steel enterprises building electric arc furnaces, converters, or AOD furnaces using the duplex method, capacity is calculated at the higher value
 - For induction furnaces built for melting alloys, the product of induction furnace equipment capacity and quantity (calculated by the number of transformers supporting the induction furnaces) shall not exceed 50% of the sum of nominal capacities of supporting electric arc furnaces (converters, AOD furnaces)
2. **Retirement project:** Location, enterprise name, retired smelting equipment model, quantity, capacity, demolition schedule
 - Where retired project capacity involves multiple smelting equipment units, each unit's capacity quantity shall be listed individually
3. Retired capacity quantity failing to meet proposed construction capacity replacement quantity requirements shall not be publicized or announced in advance
4. Capacity replacement plans shall not contain vague expressions such as "to be determined"

6.2 Article 13: Cross-Regional Replacement

Enterprises (groups) are encouraged to implement cross-regional (provincial, municipal, county, etc.) capacity replacement. Relevant regions shall not impose any form of restriction.

For cross-provincial capacity transfers:

When the capacity transferor is a central enterprise subsidiary:

- The parent central enterprise group verifies the authenticity and compliance of the transferred capacity
- Reports to the State-owned Assets Supervision and Administration Commission for confirmation
- Publishes on the central enterprise portal website for public notice (Attachment 3)
- Copies to the provincial industrial and information technology authority where the capacity is located

When the capacity transferor is a non-central enterprise:

- The provincial industrial and information technology authority where the transferor is located verifies the authenticity and compliance of the transferred capacity
- Publishes on the provincial industrial and information technology authority portal website for public notice (Attachment 3)

Notice period: In principle, no less than 15 working days. After no objections, a capacity transfer announcement is published.

6.3 Article 14: Publication and Announcement

Enterprises building steel smelting projects shall submit capacity replacement plans to the provincial industrial and information technology authority where the construction project is located according to relevant requirements of these Measures.

Provincial authorities shall:

1. Accept submissions according to relevant provisions of these Measures
2. Verify the authenticity and compliance of capacity replacement plans
3. After no objections, publish on the provincial industrial and information technology authority official website for public notice
4. Publication period: In principle, no less than 15 working days
5. After no objections, issue announcement

6.4 Article 15: Project Changes

Capacity replacement plans must be strictly implemented after announcement. Where adjustments are truly necessary, strict change procedures must be followed.

Major changes requiring new plan submission:

- Changes to construction (or retirement) smelting equipment model, quantity, capacity before construction project production
- Changes to construction project province (autonomous region, municipality)
- Construction project enterprise must reformulate and submit capacity replacement plan according to Article 12
- Provincial authorities re-accept according to relevant provisions and fulfill publication, announcement and other procedures

- When changed capacity replacement plan is announced, original plan must be simultaneously revoked

Minor changes requiring notification only:

- Changes to construction project enterprise name, construction entity, or provincial construction address before project production, where replacement content has not substantially changed
- Construction project enterprise must notify provincial industrial and information technology authority
- After provincial authority review and approval, promptly issue explanation on official website

6.5 Article 16: Capacity Retirement

Before construction project production, all retired equipment used for replacement shall be dismantled, rendered incapable of resuming production, and steel slag and other solid waste properly disposed of.

For capacity replacement projects within the same province:

- Provincial industrial and information technology authority responsible for supervision and implementation
- Ensure retired equipment is dismantled in place

For cross-provincial capacity replacement:

- Provincial industrial and information technology authority where capacity transferor is located (or parent central enterprise) responsible for supervision and implementation
- Ensure retired equipment is dismantled in place
- Notify construction project provincial industrial and information technology authority of retired equipment demolition status

6.6 Article 17: Project Acceptance

Before project completion and production, the provincial industrial and information technology authority where the construction project is located is responsible for organizing capacity replacement project acceptance.

Acceptance content includes:

- Verifying consistency of construction project location, enterprise name, completed smelting equipment model, quantity, capacity, etc. with announced capacity replacement plan
- Verifying retired equipment demolition status

Non-compliant construction content:

- Must be corrected within time limit
- Cannot commence production before corrections are completed

After acceptance qualification:

- Within 10 working days, provincial authority must announce capacity replacement project acceptance status on official website

6.7 Article 18: Strengthened Management

Provincial responsibilities:

- Conduct annual self-inspection of steel capacity replacement project implementation
- Submit self-inspection report to MIIT by December 31 each year

MIIT responsibilities:

- Annually announce national steel capacity replacement status
- Organize research on steel capacity replacement implementation
- Summarize typical experiences and practices

For violations of these Measures:

- Immediately halt construction and production
- Require corrections within time limit
- For fraud in capacity replacement process causing adverse social impact: implement joint disciplinary actions against enterprises, design consulting units, etc. according to law
- For regions and enterprises (groups) with lax review or inadequate supervision: order corrections within time limit, issue circulars for serious cases

6.8 Article 19: Project Time Limits

Capacity replacement plans announced by regions shall specify validity period of **24 months**.

For plans announced under these Measures:

- Within 24 months from announcement date, must complete project filing, energy conservation review and carbon emission evaluation, environmental assessment, and officially commence construction
- After 24 months, provincial authority shall announce revocation of original capacity replacement plan within 1 month after expiration
- Re-formulated capacity replacement plans after revocation shall be implemented according to these Measures

For plans announced before August 23, 2024:

- Within 24 months from implementation date of these Measures, must complete project filing, energy conservation review and carbon emission evaluation, environmental assessment, and officially commence construction
- After 24 months, provincial authority shall announce revocation of original capacity replacement plan within 1 month after expiration
- Re-formulated capacity replacement plans after revocation shall be implemented according to these Measures

For plans announced before August 23, 2024 with split retired capacity:

- Where partial capacity not fully implemented to specific construction projects within 24 months from implementation of these Measures, unimplemented capacity automatically becomes void
- Void capacity announced by provincial authority

7 Policy Transition and Coordination

7.1 Article 20: Policy Continuity

To ensure policy continuity and stability, related situations arising from policy transitions shall be handled according to the following principles:

1. Plans publicized or announced by provincial authorities before August 23, 2024 shall be implemented according to the capacity replacement measures on which the original plan was based
2. For capacity transfer plans publicized or announced before August 23, 2024, retired capacity verified according to original plan; after implementation to specific construction projects, capacity replacement implemented according to these Measures
3. In capacity replacement plans and capacity transfer plans publicized or announced before August 23, 2024, where same equipment capacity was split, capacity already split but not implemented to specific construction projects shall implement capacity replacement according to these Measures, with retired capacity verified according to capacity replacement measures on which original plan was based, and used in one time
4. Where steel capacity replacement (transfer) contracts between enterprises were signed before August 23, 2024 and payment no less than 20% of contract amount has been made, after providing payment proof, retired capacity verified according to capacity replacement measures on which original plan was based and shall not be transferred again; after implementation to specific construction projects, capacity replacement implemented according to these Measures
5. For capacity replacement plans announced by provincial authorities before August 23, 2024, where changes to unimplemented portions of the plan are proposed, implemented portions implemented according to original announcement, portions to be changed apply for changes according to these Measures

7.2 Article 21: Comprehensive Coordination

When implementing capacity replacement according to these Measures, capacity replacement should be coordinated with energy conservation, pollution reduction, and carbon reduction policies. Capacity replacement projects should be constructed in accordance with energy efficiency benchmarks and environmental performance A-level standards.

Development reform and ecological environment authorities, when processing project environmental assessments, pollutant discharge permits, energy conservation reviews, and carbon emission evaluations, shall simultaneously implement equal or reduced replacement of major pollutant emissions, energy consumption, and carbon emissions (replacement ratio same as capacity replacement ratio), with capacity receiving regions coordinating to reduce existing indicators and create replacement space for new projects.

7.3 Article 22: Miscellaneous

These Measures shall come into force on [Date], and be revised in a timely manner based on industrial development conditions. The Notice of the Ministry of Industry and Information Technology on Issuing Implementation Measures for Capacity Replacement in the Steel Industry (MIIT Raw Materials [2021] No. 46) is simultaneously abolished.

8 Attachments Overview

8.1 Attachment 1: Key Regions

According to the Notice of the State Council on Issuing the Action Plan for Continuous Improvement of Air Quality (State Council [2023] No. 24), key regions include:

Beijing-Tianjin-Hebei and Surrounding Areas:

- Beijing, Tianjin
- Hebei Province: Shijiazhuang, Tangshan, Qinhuangdao, Handan, Xingtai, Baoding, Cangzhou, Langfang, Hengshui, Xiong'an New Area, Xinji, Dingzhou
- Shandong Province: Jinan, Zibo, Zaozhuang, Dongying, Weifang, Jining, Tai'an, Rizhao, Linyi, Dezhou, Liaocheng, Binzhou, Heze
- Henan Province: Zhengzhou, Kaifeng, Luoyang, Pingdingshan, Anyang, Hebi, Xinxiang, Jiaozuo, Puyang, Xuchang, Luohe, Sanmenxia, Shangqiu, Zhoukou, Jiyuan

Yangtze River Delta:

- Shanghai
- Jiangsu Province (all cities)
- Zhejiang Province: Hangzhou, Ningbo, Jiaxing, Huzhou, Shaoxing, Zhoushan
- Anhui Province: Hefei, Wuhu, Bengbu, Huainan, Ma'anshan, Huaibei, Chuzhou, Fuyang, Suzhou, Lu'an, Bozhou

Fen-Wei Plain:

- Shanxi Province: Taiyuan, Yangquan, Changzhi, Jincheng, Jinzhong, Yuncheng, Linfen, Lüliang
- Shaanxi Province: Xi'an, Tongchuan, Baoji, Xianyang, Weinan, Yangling Agricultural High-tech Industries Demonstration Zone, Hancheng

8.2 Attachment 2: Capacity Calculation Tables

Iron-making (Blast Furnace):

The document provides detailed capacity calculation tables correlating blast furnace effective volume (cubic meters) to annual capacity (10,000 tons/year), ranging from 420 m³ (50) to 5,800 m³ (463).

Note: For volumes between table entries, interpolation is used. Construction blast furnace effective volumes must be multiples of 10.

Steel-making (Converter):

Capacity table correlates converter nominal capacity (tons of average steel output) to annual capacity, ranging from 35 tons (55) to 350 tons (350).

Note: AOD furnaces for stainless steel calculated at 60% of table standard. Construction converter nominal capacities must be multiples of 10.

Steel-making (Electric Arc Furnace):

Capacity table correlates EAF nominal capacity (tons of average steel output) to annual capacity, ranging from 40 tons (26) to 220 tons (180).

Note: Construction EAF nominal capacities must be multiples of 5.

8.3 Attachment 3: Capacity Transfer Announcement Template

Standard form for announcing capacity transfers between enterprises, including:

- Transferor enterprise information (location, unified social credit code)
- Smelting equipment details (type, model, quantity, capacity)
- Transferee enterprise information
- Construction project details

8.4 Attachment 4: Capacity Replacement Plan Announcement Template

Standard form for announcing capacity replacement plans, including:

- Construction project details (equipment specifications, construction timeline, replacement ratio)
- Retirement project details (equipment specifications, demolition timeline)
- Validity period (24 months)

9 Policy Analysis and Key Takeaways

9.1 Major Changes from 2021 Policy

1. **Stricter replacement ratios:** Increased from varied ratios to minimum 1.5:1 nationwide
2. **Time-limited capacity trading:** Inter-enterprise capacity replacement ends in 2027
3. **Regional restrictions:** Strengthened prohibitions on capacity transfers to key air quality regions
4. **Low-carbon incentives:** New equal replacement provisions for EAF and hydrogen metallurgy projects
5. **Project deadlines:** 24-month validity period for capacity replacement plans
6. **Enhanced enforcement:** Annual reporting requirements and penalties for non-compliance

9.2 Strategic Implications

This policy represents a significant tightening of China's steel capacity control measures, aimed at:

- Achieving absolute reduction in total steel production capacity
- Accelerating industry consolidation through M&A rather than capacity trading
- Promoting low-carbon steel production technologies
- Improving air quality in key urban regions
- Balancing steel supply with national demand projections

Document Information

Original Title:

Issuing Authority: Ministry of Industry and Information Technology, Department of Raw Materials Industry

Status: Draft for Public Comments

Comment Deadline: November 23, 2025

Source: https://www.miit.gov.cn/jgsj/ycls/gzdt/art/2025/art_93f91f015a1447a58034327bba42e71e.html