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China's Naphtha Tax Accelerates Feedstock Shift Amid Global Oversupply Pressure

China is reportedly set to introduce a naphtha consumption tax of around $304/tonne as part of its broader anti-involution policy framework, with the measure focused specifically on domestic merchant transactions. The proposed tax would apply to invoiced sales of naphtha, such as refinery sales to independent steam crackers or gasoline blenders. In contrast, intra-company transfers within integrated refinery-petrochemical complexes would be exempt, as these internal movements do not involve invoicing. Given that roughly half of mainland China's steam crackers are refinery-integrated, most of the domestic ethylene capacity would not face direct exposure to the new levy.

As a result, the policy primarily targets standalone crackers, particularly private-sector and joint-venture operators that depend on third-party naphtha procurement. Within this exposed segment, approximately 25% operate mixed-feed configurations which are predominantly naphtha-based, while the rest rely on lighter feedstocks such as ethane and LPG.

It remains unclear whether imported naphtha will also be subject to the same consumption tax. If imports are exempt, standalone and JV crackers are likely to respond by increasing purchases of imported naphtha or accelerating the shift toward alternative feedstocks such as LPG and ethane. As a result, feedstock diversification across China's independent cracking segment is expected to gain momentum.

Stronger demand for LPG, particularly butane, could help alleviate pressure in the currently oversupplied LPG market, offering some rebalancing support to that value chain. However, higher feedstock costs and structural uncertainty may further weigh on standalone cracker economics. Operating rates at these facilities are already around 65%, below the historical norm of roughly 75%, leaving limited room to absorb additional cost burdens.

At the same time, tighter regulatory measures could suppress overall naphtha demand within China, with broader implications for regional trade. Any sustained decline in domestic merchant naphtha consumption would likely reshape Asian naphtha trade flows, altering import patterns, pricing benchmarks, and refinery optimization strategies across the region.

Globally, the naphtha market is expected to remain structurally oversupplied throughout 2026-2030. Persistently weak steam cracker margins and subdued operating rates at chemical plants are likely to limit demand growth, contributing to a sustained surplus in naphtha availability. At the same time, feedstock competition is set to intensify. In China, the proposed naphtha consumption tax could accelerate substitution toward alternative feedstocks such as LPG and ethane, further eroding domestic naphtha demand. In the US, producers continue to favour LNG-based cracking, supported by abundant and competitively priced ethane and LPG, making naphtha comparatively less attractive. With global steam cracker margins already under pressure, any additional increase in feedstock costs would further squeeze profitability across the petrochemical chain.

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