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Integration Will Be Key to Success as Industry Faces Uncertainty

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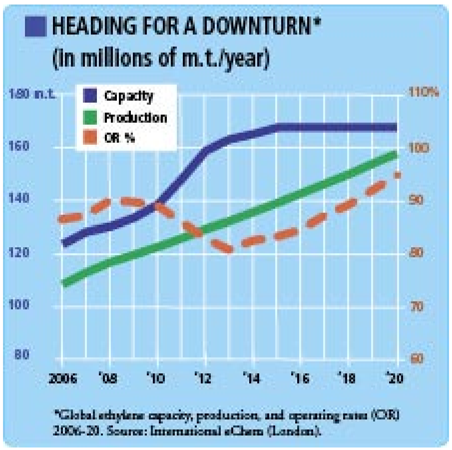
Integration will be “the key critical success factor” for producers and consumers of aromatics and olefins during the next 10 years, given an uncertain demand outlook and likely changes in gasoline and feedstock markets, according to a recently published study by consulting firm International eChem (London). Demand is particularly difficult to forecast, with the longer-term impact of the credit crunch still unknown, the study says. “A number of different challenges will confront producers over the next decade,” says Paul Hodges, chairman at International eChem. “There will also be opportunities, for those with the flexibility to exploit them.”



Integration will help producers to optimize production down the value chain, and broaden options for “make-buy” decisions at times of market stress, the study says. Integrated petrochemical companies are able to take a longer-term view when faced with short-term difficulties, it adds. “Those companies who have developed maximum flexibility will therefore be best placed to optimize their operations on the day,” Hodges says.

High oil prices will also require petchem companies to seek upstream integration, particularly as the worldwide petchem industry moves into a widely predicted downturn. “Those companies who are not clearly focused on being ‘low cost’ will find their margins increasingly squeezed to the point where their survival may be at risk over the medium to longer term,” Hodges says.

A growing surplus of product will most likely reverse the “globalization” trend in the petchem industry during the last 20 years, with lower volumes of olefins and aromatics being shipped long distance, the study says. International eChem forecasts “major overcapacity” for benzene, ethylene, para-xylene, and propylene through 2013-15 and says that new capacity will not be needed until 2015-20. “Freight and logistic costs will figure more strongly as a deterrent to inter-regional movements,” because margins will be under pressure, International eChem says. “The advantage will therefore lie with those regions that are best balanced between supply and derivative consumption—such as China, Europe, and Nafta—or have advantaged feedstock, such as the Mideast.” Other regions will have difficulty competing in export markets because local suppliers will “fight hard” to maintain their market positions, the study says.

Recent shortages of naphtha feedstock are not expected to continue, mainly because increased ethylene production from ethane in the Mideast will substitute much of the current demand for naphtha and liquefied petroleum gas (LPG) elsewhere. “The level of [Mideast] capacity expansion under way means that it cannot all be absorbed, even under a global boom scenario,” Hodges says. “And its advantaged cost position means it will always be competitive, so it is unlikely that ethane-based producers will cut back production. The burden of adjustment will therefore fall on more expensive naphtha- and LPG-based crackers,” he says. Meanwhile, Naphtha supply is likely to increase significantly due to major expansions in refining capacity in all regions of the world, the study says.