

Chemicals feel the wind of change - Hodges

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BANGKOK (ICIS news)--A wind of change is sweeping through petrochemical businesses, a consultant said on Friday, with a more negative atmosphere making itself felt as economic data painted an increasingly bleak picture.

Where expansion had been the order of the day for the past several years, said Paul Hodges, Chairman of consultancy **International eChem**, a more complex situation is now brewing. In an interview on the sidelines of the **4th Asian Aromatics and Derivatives Conference**, which he chaired during Friday's session, Hodges summed up what he felt had been the defining topics over the two day event.

In particular, there was the theme of increasing market complexity "There's the question of crude oil prices, which are getting higher - are we going to be able to pass them through? "Secondly, and allied to that, there is thinking with respect to gasoline and feedstocks and even things like the biofuel debate. Now, to understand the value chain of PTA [purified terephthalic acid], you have to understand biofuels. Aromatics have to understand gasoline, they have to understand biofuels. With the new coal-based capacity for benzene coming out of China we need to understand the steel and coal industry.

"And then of course, the \$64,000 dollar question, what is happening to the economy? Is it just going to be a mild slowdown or, as has been said today, is it going to be a very nasty downturn?"

There was also the challenge, he added, of changing the way that people thought about the market. "We have grown used to companies working within a silo so that they know an awful lot about their specific product area or their specific geographical area, but do they know what is coming around the corner? "If you are very focused on the downstream area and down the value chain you often miss the warning signs of things changing in external drivers," he continued. "So we need some external input in this area to challenge conventional thinking."

Earlier in the day, Hodges had closed the conference with a bleak warning to the attendees: "I think that we are going to see the most difficult times we have seen for many years, and it will be extremely difficult to survive. It is important to challenge those people who say that everything is OK, because those people will go bankrupt."

He re-iterated this point later, saying that current economic and financial market turmoil was only the tip of the recessionary iceberg. "I don't think this downturn is going to be over in six months or a year; this is going to last for three or four years and the world in 2012 is going to be an awful lot different from the world of 2008. It's going to be three or four years before we hit bottom, because that's what really happens. If you look back at the past, from 1990 to 1994 was the downturn.

"Markets will become more regional. We have seen over this last 20 year cycle growing globalisation and now I think we will get back to a more regional outlook, because travel and transport will become very much more expensive and very much more difficult to run. If you were starting today, you would not want to outsource your supply chain, you would want to have it as close as possible. It's fairly clear to me that people where they can are starting to switch supply chains back again."

This echoed sentiments expressed by a number of other delegates who had spoke over the past two days, with Shell'y Yea-Yee Fang saying the day before that "as challenging feedstock and oil costs impact the market, those producers with strong integration are best placed to compete".

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