Europe aromatics players face lower growth amid ‘dangerous times’

25 November 2009 15:18 [Source: ICIS news]

AMSTERDAM (ICIS news)--Players in the European aromatics sector are facing a period of lower growth in the aftermath of the petrochemical industry’s downturn in 2009, said Paul Hodges, Chairman of International eChem, on Wednesday.

“These are dangerous times,” said Hodges, speaking at the 8th European Aromatics & Derivatives Conference in Amsterdam, the Netherlands. “The banking system is on life support. None of us have ever been here before, and we have no clear idea what will happen.”

Hodges nevertheless said that there was much to be learnt from previous downturns and how the industry had reacted then.
“Think tomorrow, but act today,” he said. “This is a marathon. A purely short-term approach will see companies in a vicious circle as this will close down their options for the future.”

Hodges outlined five key points for companies to act on in 2010:

- Industry restructuring is likely to start: Participants should aim to take advantage of market conditions in order to capture the highest overall value for their company, said Hodges. This required careful analysis of feedstock positions, utility costs and other key cost and profit elements, he added.
- Global reach will be important: Volatile markets could offer more opportunities for arbitrage to those players able to optimise operations, and Hodges. “The objective is to make money, not to cut costs,” he added.
- Good logistics are key to implementation: Companies should be ready to enter into partnerships to take full advantage of opportunities in a timely manner. This could involve companies considering opportunities for virtual or *ersatz* integration in order to reduce costs.
- Reliable, low-cost technology is essential: Companies should avoid cutting back on maintenance and investment for a short-term profit boost, Hodges said.
- Size is important in defining unit cost: This was an opportunity to change the terms of trade, said Hodges. Companies would need to maintain this as a key parameter when reviewing their plant or site portfolio, he added.

: Truong Mellor

Europe gasoline surplus will aid aromatics - Wood Mackenzie

25 November 2009 15:06 [Source: ICIS news]

AMSTERDAM (ICIS news)--An increasing amount of reformate components in European refineries should become available for the aromatics industry due to a growing surplus of gasoline, David Auty, Downstream Consultant with Wood Mackenzie, said on Wednesday.

Auty warned, however, that the probability of lower refining utilisation rates in North America could be more challenging for the US aromatics industry.
The recession had affected demand for all oil products but the recovery is expected to be led by diesel, Auty said at 8th European Aromatics & Derivatives Conference.

In Europe, gasoline demand was projected to decline to 2015 while diesel demand rises. Demand recovery will be limited in North America and Europe where Auty predicted growth of only 0.5%/year in the 2008-2020 period. This compares to growth of 2.5%/year in Asia-Pacific for the same period.

A large amount of new refinery capacity, however, is expected to come into operation. About 1.8m bbl/day is being added in North America and Europe where very limited demand growth is forecast.

Globally, the amount of spare refining capacity is expected to increase to levels not seen since the mid-1980s, Auty said. “This could lead to reduced utilisation rates, particularly in North America,” he added.

Global refinery utilisation rates are expected to fall to 78% in 2010 compared to 85% in 2006. When refinery utilisation rates are reduced, individual products become unbalanced. In particular, the gasoline surplus grows due to slow demand growth and increasing amounts of non-refinery supplies such as ethanol.

The impact on global gasoline trade is that gasoline from Europe is forced onto the US market. In addition, refiners in the Middle East and Indian Ocean rim countries will also try and push gasoline into North America.

By: Peter Taffe

Europe benzene prices likely to stay volatile - Shell

25 November 2009 12:12 [Source: ICIS news]

AMSTERDAM (ICIS news)--The European benzene market is more volatile and unpredictable than at any stage in the past and is set to remain so, said a key producer on Wednesday.

Whereas the average month-on-month price change in the European spot market was around $20/tonne in the early 1990s and $60-80/tonne in the mid-2000s, it was now around $100-120/tonne or 15%, said Jonathan Forbes-Lane, Shell Chemicals’ general manager aromatics, Europe, in his keynote address to the ICIS Aromatics & Derivatives Conference.

The volatility was greater than that on Brent crude, which had been below 10% in 2009. The margin of benzene over naphtha had also been exceptionally volatile in 2009, particularly because first benzene demand had fallen faster than reformate and pygas supply, and then benzene demand had recovered while feedstock supply had been limited. Prices would stay volatile and unpredictable because they were being pulled in opposing directions by fluctuations in consumer demand and feedstock supply, Forbes-Lane said.

Suppliers and consumers had driven down inventories, and increased liquidity in the benzene market had created greater transparency, so any new information about supply/demand balances had a major effect on spot pricing, Forbes-Lane added. Shell had responded to the increased volatility by taking a creative approach to managing its customers’ credit risk to sustain their business for the longer term, according to Forbes-Lane. In some cases this had meant agreeing shorter payment terms, linking buying and selling contracts, or allowing customers to move from contract to spot pricing.

Customers had changed their negotiating tactics during the downturn, Forbes-Lane said. One big buyer had switched to an auction process to buy its benzene. The partnership of Shell Chemicals with Shell Trading had also helped the company to manage risk in volatile markets.

Responding to a question from the floor about whether there was a conflict of interests between managing the assets and taking advantage of trading the spot market, Forbes-Lane said that spot trading was one of Shell’s core competences and so could be used to make a profit. Market perceptions were a strong factor in driving spot price volatility. Regarding hedging as a solution, he said: “Hedging is not for free. Those companies that go into it are very nearly always disappointed.”

By: Barbara Ortner

Europe styrenics industry needs to be innovative - BASF

25 November 2009 12:26 [Source: ICIS news]

AMSTERDAM (ICIS news)--Competition from the polypropylene (PP) sector will force styrenics businesses in Europe to become even more innovative by focusing on new and still-expanding markets, while acceptance of the recent volatility caused by the global economic slowdown is also crucial, BASF's Jaroslaw Michniuk said on Wednesday.

Speaking at the European Aromatics & Derivatives Conference, BASF's group vice president of styrenics in Europe said: "The current volatility is an issue for everybody, and at the same time PP expansions in the Middle East mean there will be more interpolymer competition in the near future."

Michniuk said that it was imperative that styrenics businesses focus on growing markets such as the construction and packaging industries in order to survive, as the delta between PP and polystyrene (PS) was not expected to significantly change in the future. It was also important to accept consolidation in other markets such as the electrics and electronics industries, from which demand had declined over recent years.

Michniuk said opportunities existed for styrenics in the bottling sector, which is mainly dominated by the polyethylene terephthalate (PET) industry. He said that the use of PS in this segment offered some clear advantages, since the product is on average 30% lighter than PET and is easily processed.

Although BASF had been developing this area for more than three years, Michniuk said it remained a risky business, but one he was willing to take a chance on. Although difficult times were still ahead, with anticipated plant closures, declining margins and weak downstream demand just some of the challenges, Michniuk remained positive about the future.

"I believe styrenic polymers have a unique selling position and I am optimistic that this market will continue to grow," Michniuk said.

By: Madelon Ten Cate

Polyester to grow in China/India, Europe to struggle - Reliance

26 November 2009 11:45 [Source: ICIS news]

AMSTERDAM (ICIS news)--New paraxylene (PX) capacities in Asia and the Middle East will put significant pressure on European suppliers in 2010, said Rajen Udeshi, president of the polyester chain at Indian chemical giant Reliance Industries, on Thursday.

Udeshi said that the majority of trade within the polyester sector would take place in China and India over the next few years, and this would put pressure on the European sector, which had primarily taken its cues from Asia and arbitrage opportunities this year. Around 98% of PX is consumed in the polyester chain.

He added that inefficient PX capacities working from a toluene or mixed xylenes (MX) base would have difficulties surviving. Udeshi also cited the example of European plants that were dependent on MX coming from the US, questioning the sustainability of such business models and their margins.

Reliance Industries had been able to capitalise on the strength of its integration, something that Udeshi saw as a tool for ensuring its own economics. However, he added that domestic demand would still be the key driver for future investment. Within countries such as China and India, the polyester sector had seen growth rates of 6-7% over the past 12 months. Although 2008 saw very little expansion, domestic consumption continued to grow, Udeshi said.

It was this domestic demand, fuelled by a young population and a growing consumer class, that would help countries such as China and India avoid the arrested growth levels seen in former polyester powerhouses such as Indonesia when manufacturing shifted elsewhere, he added.

With the sector seeing some regained confidence and the new phase of expansion in both Asia and the Middle East, Udeshi said that increasing capacities designed to meet growing demand levels in the polyester chain would see a new wave of investment. “It is a fact of life that demand for polyester is coming from countries such as China and India,” Udeshi told ICIS on Thursday. Increasingly, those countries are being seen as manufacturing hubs as well.

Although downstream purified terepthalic acid (PTA) demand in Asia had proven erratic in the second half of 2009, Udeshi said that with global cotton production in decline since 2007, polyester would be the future of the fibres market in the years to come. Despite the focus on domestic trade and demand, Udeshi pointed out that Reliance Industries, responsible for 3% of India’s total GDP, was also a substantial exporter. The company’s export business was said to account for more than half of its revenue.

By: Truong Mellor

PET innovation investment vital to ensure growth - M&G Group

26 November 2009 12:40 [Source: ICIS news]

AMSTERDAM (ICIS news)--The polyethylene terephthalate (PET) industry needs to increase investment in the research and development of specialty products and new end-use applications to provide future growth opportunities, M&G Group's sales and technical services manager said on Thursday.

“These will be the key to penetrate new markets and to meet the future needs of downstream users,” Roberto Bertaggia from the Italian PET producer said. Bertaggia added that demand growth fell by 3% in the EU in 2008 and it was estimated fall a further 2% this year on the maturing of the market, the reduction of weight in containers and the economic crisis. “New opportunities exist, but they will take time to develop,” he said.

EU producers had been losing market share to imports from Asia and the Middle East, said Bertaggia, and EU producers’ market share fell from 83.7% in 2007 to 72.6% in 2009. The decline in growth together with reduced profitability had caused severe rationalisation of European suppliers and four plants had been shut in Europe since mid-2008, he added.

In addition, the number of PET producers in Europe had decline from 14 in 2004 to eight. “In our opinion, rationalisation has still some way to go,” added Bertaggia.

By: Truong Mellor

Confidence in chemicals undermined by bullish stock forecasts

25 November 2009 17:44 [Source: ICIS news]

AMSTERDAM (ICIS news)--Bullish stock forecasting for the chemical sector has undermined investor confidence in the industry, equities analyst Paul Satchell said on Wednesday.

It is usually a dangerous sign when analysts and investors are more bullish than the companies involved, he added. The recovery in stock prices for the chemical sector has proved dramatic in 2009 but, Satchell said, thus far he has remained unconvinced.

When he first painted a gloomy portrait for chemical shares 12 months ago, many players in the industry were critical of what may have been a self-fulfilling prophecy, Satchell said. Satchell is a former managing director with ING Bank. It was believed that perception might drive reality, he explained. But the reality proved to be worse than he expected.

According to Satchell, the demand slump in chemicals was driven by a perfect storm of factors such as economic uncertainty, frozen credit markets and collapsing hydrocarbon prices that combined to spur massive destocking towards the end of 2008. Chemical companies were surprised by the downturn, Satchell said, noting that many were still bullish in October 2008 in spite of sector stocks falling in advance of this.

However, macro-investors and value players tended to move early, he added. They had an outlook that was based on more general factors as opposed to those that were purely focused on the chemical industry which perhaps could not see the wood for the trees.

Satchell highlighted order patterns as a key indicator of recovery, and felt that many players were still operating on a hand to mouth basis purchasing small volumes to meet immediate needs. Until normal buying patterns re-emerge, Satchell felt it was premature to adopt a bullish attitude regarding the sector.

According to Satchell, many analysts have maintained a spurious confidence in the chemical sector, something he feels is reinforced by compartmentalisation. Analysts tend to focus on quoted or listed companies, he explained. Private companies are poorly understood. Credit analysts are also usually far less specialised.

Unsurprisingly, Satchell noted that the investment stance on chemical companies today is bullish, something he interprets as market observers hoping for the best rather than seeing through the trough.

By: Peter Taffe

Naphtha price critical to benzene in 2010 - ChemSystems

25 November 2009 17:51 [Source: ICIS news]

AMSTERDAM (ICIS news)--Benzene availability and pricing will continue to be affected by developments in steam cracking and reformer operations, especially if refined product prices remain volatile, said ChemSystems' marketing manager, Alastair Hensman, on Wednesday.

“The feedstock [naphtha] price will be critical to aromatics fortunes in 2010,” he added. Production from steam crackers would be affected by switching between naphtha and LPG (liquefied petroleum gas) feedstocks as cracker operators struggle to maintain profitability by choosing the lowest priced feedstock, explained Hensman. The cracking of LPG, in particular propane, reduces the benzene yield.

“Persistent high naphtha values relative to propane will continue the trend towards lighter feedstock cracking and place upward pressure on benzene values to secure supply,” he added.

Hensman showed that historically, when propane prices fall, benzene prices move up to encourage the cracking of naphtha. Investment in reformer-based production has been partly driven to increase the supply of paraxylene for the growing polyester sector. However, the polyester fibre sector faces competition from cotton when crude oil prices are high, placing downward pressure on paraxylene values, said Hensman.

He showed that up to 2004, paraxylene carried the largest share of reformer operating costs. Since 2005, gasoline and benzene have been shouldering a higher proportion of these costs. However, he warned: “A weak gasoline market with strong naphtha [values] could add upwards pressure on benzene values.”

By: Peter Taffe

Aromatics trading takes financial muscle and global reach

25 November 2009 19:33 [Source: ICIS news]

AMSTERDAM (ICIS news)--There is no longer a role for small traders in the aromatics industry, a panel of leading traders said on Wednesday.

In the last 20 years, the number of traders in the aromatics market had been reduced from around 40 to 10, and today’s trader needs to be financially sound with global reach, traders Trammochem, Integra and Interchem said during a panel discussion at the ICIS European Aromatics & Derivatives Conference in Amsterdam.

The key change in recent years has been in the speed required to respond to the increasingly fast information flow. Traders need to be flexible in their approach to swaps and arbitrages, and knowledgeable about a wide range of products, said Peter Johanssen of Integra. Traders’ customers are more demanding than they were even three years ago, so traders need to be expert in financing, inventory management and risk exposure, he added.

Also, it is a popular misconception that traders love volatility, said Frank Aerts of Interchem. “Traders don’t like volatility - they just like to see a trend. It’s also a pain in the neck for traders,” he said.

An aromatics trader needs to balance being a service function to the industry with the need to make money, said Ashok Kishore, chief executive of traders Trammochem. “There is a lot of talk about paper trading, and a lot about options trading, but there’s nothing going on,” said Kishore. “We want to see more traders, because that brings greater liquidity, but they must be financially strong,” he added.

Liquidity does not necessarily create volatility, Aerts said. Toluene, for example, is completely illiquid, but can be very volatile, he said.

By: Barbara Ortner

Europe Aromatics players to discuss challenges facing industry

24 November 2009 11:00 [Source: ICIS news]

By Truong Mellor and Madelon Ten Cate

LONDON (ICIS news)--After a year of crumbling margins, production cutbacks and closing plants in the aromatics industry, key players will be talking about the path forward and anticipated strategies for survival at the 8th European Aromatics & Derivatives Conference, a speaker from the event said on Tuesday.

“Aside from improved efficiency and specialisation, what the industry might see in 2010 is *ersatz* integration – not on the ground but through companies working together,” said Paul Hodges, chairman of International eChem. “Players will have to look at their operations and say ‘what am I missing?’”.

Hodges is one of several speakers scheduled for the conference, which is jointly organised by ICIS and International e-Chem and takes place from Wednesday 25 November to Thursday 26 November.

Sources within the industry agree that the New Year will bring a myriad of challenges, a key one being the increased capacity coming out of the Middle East and Asia from 2010 onwards. At the same time, domestic demand in Europe has declined in recent months, with several downstream plants shutting down due to a lack of buying interest from downstream markets.

Within the upstream benzene market, profitability depends largely on cracker economics and olefins or polyester demand. Throughout 2009, many crackers shut down permanently or for prolonged periods of time due to oversupply and poor economics. It remains to be seen what operating rates will be profitable in 2010.

Moreover, multiple downstream plants, especially in the polystyrene markets, which saw severe competition mainly from the polypropylene business, suffered such significant losses that permanent closure was the only solution. This, in effect, put a strain on the whole styrenics chain, with styrene producers suffering declining margins for most of the year and uncertainty for the year ahead.
The toluene sector also remained slow this year, despite a brief upturn in July due to players switching on their hydrodealkylation (HDA) units when benzene costs were high.

The seasonal downturn that is traditionally seen towards the end of the year meant that demand would remain weak until 2010, sources largely agreed.
Meanwhile, the paraxylene (PX) market in Europe has seen a slight upturn in activity this month following stronger downstream demand in Asia from the key purified terephthalic acid (PTA) sector, as players have sought to capitalise on cheap freight rates between the ARA region and Asia.

However, this uptick in buyer interest was far from a clear sign that the European PX sector would see a revival of fortunes in the New Year, a handful of sources said on Monday. This apprehension largely stemmed from the emergence of new PX capacities in both Asia and the Middle East, according to one trader, with several producers in the region also scheduled to restart currently idled plants by the end of the year.

“The other challenge is that in 2010, the industry will see a lot of volume coming from the Middle East that will be headed for Asia,” said the trader, citing the recent start up of the new Kuwait Aromatics unit in at Shuaiba in Kuwait, as well as further capacities scheduled to start in Oman.

Some of the solutions proposed to all these challenges will be to stay competitive via industry restructuring and careful analysis of feedstock positions and utility costs.
($1 = €0.67)

By: Truong Mellor

BASF, Dow Compete to Offload Unwanted $10 Billion Styrene Units

By Richard Weiss and Jack Kaskey

Nov. 27 (Bloomberg) -- BASF SE and Dow Chemical Co. are competing for buyers of styrene operations generating combined sales of $10 billion as factories in the Middle East squeeze profitability in basic plastics.

BASF is in talks to form a styrene joint venture out of its unit generating 3 billion euros ($4.5 billion) in sales, as a prelude to exiting the market, a company official with knowledge of the plan said Nov. 25. Dow is taking bids for its similarly sized unit, and is targeting a sale for the first quarter.

“The sale of both assets at the same time probably makes it more difficult for both players, considering their cyclicality and commodity character and the low momentum in M&A,” said Bernd Schneider, a consultant at PricewaterhouseCoopers in Frankfurt, who specializes in the chemicals industry.

Both Dow and BASF are retreating from a market increasingly dominated by Kuwait and the United Arab Emirates, where lower feedstock costs and the growing Chinese market are closer to hand. Europe’s styrene industry will on average operate below the 85 to 90 percent factory run rate needed to make money in 2009, BASF styrenics vice-president Jaroslaw Michniuk said at an aromatics conference organized by chemical media group ICIS.

“Dow has done a good job of doing as they say,” International eChem Chairman Paul Hodges said at the conference in Amsterdam “Their announcement to sell by the first quarter means they most likely will.”

Mass Exodus

Global demand for styrene, used in televisions and CD cases, will contract a second year in 2009, leaving record overcapacity in the market, Chemical Market Associates Inc. said in an October report. Competition from ethylene-based plastics, which are easier to recycle, has made styrene less economic and desirable among western consumers.

With the disappearance of audio and video tapes and the advent of the flatscreen television that use less material, BASF has seen a “dramatic” drop in polystyrene profitability, BASF’s Michniuk said at the conference. Margins are shrinking to below 1 percent, less than half the level of 2007, he said.

Dow and BASF are seeking to follow rivals that already moved out of styrene as oil and gas-rich nations channel funds into manufacturing and processing less commoditized products that are closer to the consumer. Huntsman Corp. spent the 1980s building up a styrene division, with plants in Texas, Ohio, Virginia and Illinois, only to sell off assets a decade later to Canada’s Nova Chemicals Corp.

Middle East

Abu Dhabi’s International Petroleum Investment Co. agreed in January to buy Nova for $499 million, gaining its first assets outside Europe and Asia. Reliance Industries Ltd. on Nov. 21 bid for LyondellBasell Industries AF, the world’s No. 1 supplier of styrene monomer to the merchant market.

Private equity is the most likely to act as an industry consolidator, possibly acquiring styrene assets from both BASF and Dow, said Peter Feng, director of styrenics at Houston-based Chemical Market Associates Inc.

“Arguably, someone could pick them both up and consolidate,” Feng said. “They’ll go to whomever on the buying side has the best view of the market and believes they can consolidate and change the market moving forward.”

Dow is the world’s second biggest maker of styrene, behind France’s Total SA, and the largest producer of polystyrene, according to Feng. BASF is the third-biggest maker of styrene and polystyrene, he said.

“There are only so many potential partners BASF could team up with in styrenic monomers and polystyrene,” Udo Fenske, BASF’s global coordinator for styrene, said at the ICIS event.

Mature Product

The price volatility of benzene, the main ingredient in styrene, hurt producer profitability for years, though the impact was muted this year, Feng said. So much capacity was shut during the recession that demand was relatively balanced with supply, he said. Delays in the start of new Middle East plants also helped the industry, he said.

“It’s a mature product,” Feng said. “One of the reasons styrene demand has not been growing is because polystyrene demand is not growing.”

Polystyrene demand has suffered as makers of disposable cups, yogurt containers, take-out food containers and egg cartons switch to alternatives such as polypropylene, polyethylene terephthalate, or PET, paper and cardboard.

As the recession ends, more styrene supply will hit the market and pressure selling prices, he said. The construction of new plants, which can cost $400 million, in the Middle East and Asia will take away export markets from North American producers and force older assets to shut, he said.

“When you look at the future of the market you see that it’s still not done consolidating,” Feng said.

To contact the reporter on this story: Andrew Noel in London on anoel@bloomberg.net