"Polymer usage is very much linked to GDP per capita and you can't change that overnight"

Paul Hodges, Chairman/International eChem

Published: Monday, December 13, 2010

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BNamericas spoke with International eChem chairman, Paul Hodges, for an insider's view on project development and market opportunities in Latin America.

BNamericas: What's your opinion of project development in Latin America's petrochemicals industry?

Hodges: There seems to be a new mood of activity going on in the region. I first went down to APLA [Latin American Petrochemical Association's annual meeting] in 1985 and the industry was very small. It would go through cycles where things would develop and then it would suddenly go quiet for a few years. The key this time round seems to be the much greater role being taken by [Brazilian federal energy company] Petrobras throughout the continent. It's important in order to achieve critical mass and make things happen.

Also, what is interesting about Petrobras is the move they're making towards the "green" bio-products, the "green" polyethylene. It makes an awful lot of sense. Unlike in the US, where ethanol takes far more out of the system than it puts back in, Brazil has the right climate and it makes perfect sense to use ethanol as a feedstock and produce petrochemicals. I believe pushing ahead in that area will bring great benefits.

BNamericas: How would you describe the market for "green" products?

Hodges: Some of the big consumer products companies, for example P&G, see enough interest from their customers to encourage them to sign up. The consumer has clearly turned the corner and is demanding these products. So now you have market demand and a market pull, which is very important, but let's not fool ourselves, we're talking, in terms of polyethylene, about a market of 70Mt or so compared to one of a few hundred thousand tons. There's a long way to go.

BNamericas: And this market is largely an export market for premium products?

Hodges: Exactly, and which is what you'd expect with new developments. You know it's going to be more expensive, therefore you need to find a few areas where the customer is prepared to pay. And in the end, in terms of overall packaging costs, it's not going to be that much more and could probably be absorbed and everybody feels good about doing the right thing.

BNamericas: In terms of the development of petrochemicals in the region could it be argued that the industry should be more developed than it is, particularly given the availability of feedstock?

Hodges: The ownership of the industry until fairly recently has been pretty fragmented and that makes it difficult to achieve critical mass in terms of developing a local market. There are some areas, like PET for example, where things have gone very well indeed but that is because you have a strong local player. Over the last 20 years products have been manufactured and then exported. The industry needs to develop the local national markets, which is easier said than done. If you're an oi! l company, you have to go out and explore for oil and bring it to land and maybe build a refinery. If you're talking about a polymer push, then you have to set up laboratories, speak to the consumer products companies, understand what everyone needs, hire highly qualified technical people; it's an order of magnitude more complex. You have to be prepared, as with "green" polyethylene, to make a commitment of five to 10 years before you are going to see the end results.

BNamericas: Could you blame the lack of development on political instability?

Hodges: Polymer usage is very much linked to GDP per capita and you can't change that overnight. For example, the G7 countries have a GDP per capita of some US$40,000 and total polymer consumption per capita of about 100kg per year. Looking around Latin America, Brazil's GDP per capita is around US$8,000, therefore, it's hard for the country to have a very large domestic market anyway. You have to wait for people to become m! ore prosperous.

BNamericas: So project development is very much dependent on external factors?

Hodges: Yes. If you take what is happening in the US, for example, with the rise of shale gas and look at relative values, what you see is crude oil has around six or seven times the energy content of ethane and natural gas. Therefore to be able to compete at par you need the crude oil price to be around six or seven times the gas price. If you're a Latin American producer and you are starting to make some headway in developing local market demand, but you're constrained because of GDP per capita, then you will need to export and the logical export market is the US. But your crude price isn't US$25-30, it's US$90. So immediately your feedstock cost is uncompetitive.

BNamericas: Given the current gas price in the US, it seems to make more sense to import products rather than produce locally in Latin America.

Hodges: It's been a very dramatic swing and nobody really anticipated this happening three or four years ago. All the messages coming through were that gas wasn't as tight as it had been in 2004-05, but people were looking to bring LNG into the US and were building import terminals. Now, the complete opposite is happening going forward and they're looking to use these terminals for export. But oil is a very volatile product. Will it stay at US$90? Probably not, because history tells us that, as in 1979-80 and 2007-8, this is a level at which demand destruction sets in. So the odds are that crude will be lower, perhaps much lower, in a year or two's time.

BNamericas: Where are opportunities for developing the industry in the region?

Hodges: Mexico has always been a big opportunity but bureaucracy has always been an issue. One problem across the region is state-owned companies do not tend to be very dynamic or innovative, and by the time they have their plans together, usually the market opportunity has passed and some! body else has got there. There is a need for companies to take a more entrepreneurial role, but of course it's very hard to do if you're state owned.

BIOGRAPHY:

Paul Hodges is an adviser to major chemical companies and the investment community. He has worked in the chemical industry for 30 years. Initially he spent 17 years as a senior executive with one of the world's leading companies, ICI, both in England and the US, where he held senior executive positions in petrochemicals and chloralkali, and was executive director of a US$1bn ICI business.

Hodges founded International eChem in 1995. He writes the "ICIS Chemicals and the Economy" blog (www.icis.com/blogs/chemicals-and-the-economy), and has been recognized in the Financial Times and elsewhere for his success in forewarning of the global financial crisis.

Hodges is a Freeman of the City of London. He is a graduate of the University of York, and subsequently studied at the IMD business school in Switzerland.

ABOUT THE COMPANY:

International eChem are independent advisers to the global chemical industry. The company specializes in the area of business development, providing commercial leadership to help businesses compete profitably in global markets.

By Linus Hoggett