WORKSHOP PETROCHEMICAL OUTLOOK 2008 APLA-IPA

The second edition of workshop "Petrochemical Outlook 2008" took place on Monday November 17th at 2 p.m. at the Board Meeting Room at Hotel Sofitel on APLA 28th edition.

The meeting was organized jointly by Instituto Petroquimico Argentino (IPA) and APLA, was coordinated by Alfredo Friedlander (moderator), Elida Fernández, Silvia Trillo and Alejandro Destuet for IPA, and Fernando Poppi for APLA.

As last year, a general program was proposed to relevant petrochemical industry consultants covering the main upstream and downstream aspects. They were invited to explain their vision on present and future of international and regional scenarios. Then, company representatives attending the workshop could make questions and exchange opinions.

Representatives of nine international consultant companies took part: Mary Blackburn from CMAI, George Martin from ICIS LOR, Rina Quijada from Intellichem, Raúl Arias and Shannon Schneider from Nexant, Ihsan Rahim from Platt´s, Bob Bauman from Polymers Consulting, Jorge Buhler from Polyolefins Consulting, Roger Lee from Tecnon Orbichem and Otavio Carvalho from Maxiquim.
Representatives from various petrochemical companies from Latin America attended: Andercol, BASF, Braskem, Crilen, Dow, Helm Andina, Oxiquim, Petrobras, Petroquim, Petroquimica Cuyo, Peruquimicos S.A.C., Plassol, Pochteca, Quattor, Vopak, Methanex, UNIPAR, YPF S.A. and Tecnimont.

A novel feature of the workshop was a contest among the delegates of the attending companies. The task consisted in determining the average price of crude oil WTI in the first ten months of the year, and risking the expected average for the same period in 2009. Ihsan Rahim from Platt´s was the jury in the contest, which resulted in four winners.

A review of comments:

The recession originated in the U.S.. has been globalized. It was compared to 1980/81. It is extremely volatile and unpredictable. One of the consultants believes the uncertainty is so great that crude oil could take values between 25 and 100 US$/bbl. There is a strong crisis of trust and prices are going down notably, with stock liquidation.

The crisis sees Latin America better positioned than previous times, with political and economical stability and good reserve levels. The region also counts with strengths such as raw material availability and proximity to major markets. It has additionally the competitive advantage of being better trained than other regions to face inflation, devaluation, and further sharp economic changes.

Facing the new scenarios, the region will have to export bigger volumes and compete against international decreasing prices. Domestic competition will also be more aggressive. In Latin America, previous economic crises showed that demand dropped but then it had a strong recovery. When we look at average growth during an extended period, demand in Latin America keeps on showing rates above worldwide average.

There is a good level of consolidation/rationalization. (The best example is Brazil with Braskem and Quattor). Brazil and Venezuela will probably be the most remarkable countries in the petrochemical industry; on the other hand Peru and Bolivia have good potential due to their gas reserves.

Brazil and Argentina have a good level of tariff protection (15% in polyolefins) which will allow them to better defend its internal prices. Venezuela receives the crisis with high prices derived from its closed economy (and plants shut-down that made it necessary to import product). Pacific zone countries are under the attack of Asian exports. Mexico, due to NAFTA, is fully impacted by the crisis in U.S. The fall in prices in U.S. will impact other regions too. Being Latin America in good condition does not mean that it will be untouched by the crisis. CEPAL estimates a fall in regional GDP growth from 4.5% this year to 2.5/3% next year.

Which were the opportunities mentioned? To take advantage of factors such as good availability of raw material, business consolidation, regional markets potential with good growth rates, and conditions of better stability to project investments (at present, there are few firmly announced in Latin America). Those projects targeted to regional markets in the short term will be more solid than those oriented to exports. If many industries traditionally requesting petrochemical such as construction and automotives are frankly affected, other areas could be explored resulting potentially interesting, such as agricultural and food, energetic efficiency, medicine and public works.

The present global situation shows lower operating rates, falling demand, additional capacity coming in from Asia and Middle East, although at a possible slower pace than scheduled as also in those regions projects are being cancelled, mainly because of lack of financing. The fall of the crude oil prices reduces competitiveness in the new plants in Middle East.

The impact of crude price changes competitiveness among regions, depending on which will be the future level of average prices. With crude values under U$S 50/bbl, United States and Europe could have a competitive position against Middle East. One of the consultants ventured a minimum price of WTI at 44 us$/bbl.

We are undergoing the descending part of the cycle, but still we did not reached the bottom? In the short-term, the quick fall of raw material prices will occur faster than the fall of polymer prices, by means of which margins are improving temporarily. The demand recovery is subject to stability. The market has today different options to buy very cheap materials with falling prices, which implies minimum purchases fearing to end up with high cost inventory. Once the level of prices gets stable for 3-4 weeks, purchase levels will get a new point of balance based on real supply and demand.

Medium-term trend is of price recovery. But, when will the recovery be reached? We should pay attention to the outcomes from fiscal and monetary measures, the actions taken during the first 100 days by the new American administration, and the behavior of demand in China. A consultant showed a base scenario which shows the recovery for 2012, but with a possible extension till 2015 if demand grows at a minor pace than expected. It is forecast that the U.S. will become a net importer country, being the Middle East and Asia new exporting regions in the Industry.

Once the crisis overcomes, some investment projects will be delayed. It is also expected that less competitive producers merge or close some of their plants.

Summing up, there is consensus Latin America has objective conditions to face the crisis and to become a strong player in the new cycle.
The meeting generated great interest and enthusiasm, considering a third edition for the 29th reunion of APLA in 2009. In the satisfaction survey carried out, a unanimous interest is seen for this event continuity, particularly allowing the confrontation of ideas from different specialists and consultants and stimulating an open debate and interchange among companies and consultants.