

Prices 'set to plunge'



Prices of petrochemical products are expected to recover by 2011

INDUSTRY EXPERTS HAVE predicted that the petrochemical industry could see product prices suffer a huge drop this year but could experience a recovery in 2010.

Sulaiman Bin Mohammed Al Mindeel, managing director of the Saudi Industrial Investment Group, said, "The magnitude of the crisis could not be predicted since the prices of petrochemical products are plummeting worldwide."

Speaking at the Riyadh Chamber of Commerce and Industry on the topic of 'The Future of Saudi Petrochemicals in the Wake of the Global Financial Crisis', Al Mindeel highlighted that while rising crude oil prices resulted in higher natural gas prices, the prices of petrochemicals failed to respond in the same manner. He predicted that there will be a huge growth in regional ethylene production, particularly in Saudi Arabia and Iran.

"As industrial investors, this is a factor of greater significance for us," he said, pointing out that Saudi Arabia and China would play a major role in the petrochemical industry over the next three years. In response to the new pricing structure announced by Saudi Basic Industries Corporation (Sabic) recently, Al Mindeel also predicted a new pricing level for petrochemical products in 2011. He said that prices would be higher in comparison to the price levels that have been in place for around a decade now.

Al Mindeel projected a huge fall in prices this year but with a slight increase in 2010. "We are expecting a recovery in the prices of petrochemical products by 2011, when the industry will be regaining its position after passing over the current turbulent period," he said. Fitch Ratings has also pointed towards production cutbacks and closures in the automotive and equipment manufacturing sectors as well as decreased industrial output and the construction slowdown as being key factors to what will be an extremely difficult time for chemical producers in Europe, the Middle East and Africa (Emea).

The agency said that the sheer speed and magnitude of the downturn meant that predicting the market even in the short-term was extremely difficult, making it harder to issue guidance to the cyclical sub-segments of the industry, ie petrochemicals, plastics, synthetic rubbers, coatings and paints.

Fitch said the pressure on these sub-sectors was high, especially if market conditions deteriorate further. It predicts that petrochemicals, polymers and plastics will experience volume contraction due to the drop in key-end market demand.

The agency also noted the distorting effect of customer destocking

Nanotechnology solution successfully applied

NANOTECHNOLOGY COMPANY, INDUSTRIAL Nanotech, Inc., has announced that its UAE distributor, NanoFan General Trading, a specialist in industrial solutions to petrochemical facilities and other heavy industry, has successfully applied Nansulate EPX-K at a petrochemical facility in the Middle East.

The project was carried out on a steam line to reduce the surface temperature of the pipe from 150°C to the ambient temperature of 38°C. The application of the company's patented EPX-K epoxy system was completed with a thickness of approximately 1/2", built up by three layers, and resulted in the needed drop in surface temperature of 112°C.

"One of the biggest problems in petrochemical industries in the Middle East is corrosion... most importantly, corrosion under insulation (CUI) in pipes, storage tanks, metal structures, and other areas," explained S. Razavi, CEO of NanoFan General Trading. "The weather in this part of the world is very corrosive. Thanks to Nansulate, we can prevent CUI problems and, of course, when it comes to saving energy, which is the talk of the day these days, we strongly believe that EPX takes the lead because of its easy application. We are proud to say that we are a part of Industrial Nanotech; they are the pioneer of nanotechnology around the globe." "NanoFan represents us in the United Arab Emirates and throughout the Middle East," stated Francesca Crolley, vice president of operations and marketing for Industrial Nanotech, Inc. "They have completed impressive projects on petrochemical facility methanol tanks with our Nansulate High Heat and our other coatings and now have been working to introduce our new epoxy product, EPX, successfully to this market. Nansulate EPX combines extraordinary thermal insulation with corrosion resistance and chemical and flame resistance."

For further information go to: <http://www.nansulate.ae> or <http://www.nanofan.net>

that has taken place since the slump in crude oil prices. Petrochemical, polymers and plastics prices have declined massively with LDPE and HDPE contract prices down by 40-50 per cent and plastics prices down by 20-30 per cent during the fourth quarter of 2008.

Fitch expects this drop to be rectified slightly by inventory corrections lifting demand and prices in the first quarter of 2009 but any rise will be tempered by weakened buyer sentiment. Most producers have already adopted measures to cut inventory levels and adjust production through reducing operating rates and temporary idling capacity. Current market conditions dictate that these measures will be maintained according to Fitch.

The agency envisages producers implementing cost-cutting programmes, reduced shareholder distributions and more selective expenditure though says these measures will not fully offset the impact of the downturn. A deterioration in margins, operating earnings and cash flow generation are inevitable according to forecasts.

Diversification and a focus on more downturn resilient markets, such as fine chemicals, agrochemicals and industrial gases should provide at least some stability for companies. Petrochemical producers will not only be hit by weak demand, however, they will also have to contend with substantial low-cost ethylene capacity which will come onstream in the Middle East and Asia during 2009.

Fitch report that while maintaining high operating rates will be possible for producers such as Sabic, the sharp drop in prices from 2007-2008 levels will decrease margins.