Marmore Industry Report

2013

GCC Petrochemicals

Getting Ready for the Next Wave or Running out of Gas?

Research Highlights

Examining the status of Petrochemicals sector in the Gulf Cooperation Council (GCC) countries, highlighting the growth drivers and investment opportunities

MARMORE
MENA INTELLIGENCE

Research

M.R. Raghu CFA, FRM | Head of Research
rmandagolathur@markaz.com

Madhu Soothanan | Senior Research Analyst

Humoud S. Al-Sabah | Analyst
Halsabah@markaz.com

Support

Jenevivu Lasrado | Secretary, Research
jlasrado@markaz.com

Divya Karthik | Administration Manager

Nael Aboul Huda | Manager, Media & Communications
naboulhuda@markaz.com

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For further information, please contact 'Markaz' at P.O. Box 23444, Safat 13095, Kuwait; Email: info@e-marmore.com; Tel: 00965 22248280; Fax: 00965 22495741.

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1. Executive Summary

GCC petrochemical companies are amongst the lowest cost manufacturers in the world owing to cheap feedstock and energy costs

GCC petrochemical companies are amongst the lowest cost manufacturers in the world owing to cheap feedstock and energy costs. Given their strategic location and development as a major transportation hub, GCC petrochemical producers enjoy a huge competitive advantage over others.

Over the next few years, GCC countries will strive hard to prove their dominance in the petrochemical sector in an effort to diversify their economies away from Oil & Gas revenues. Development of large scale petrochemical complexes will serve the dual purpose of diversification as well as employment generation.

Table 1: GCC Petrochemicals Capacity (MTPA[1])

Country	2011	2015
Saudi Arabia	81	104
Qatar	17	28
Oman	9	16
Kuwait	6	8
UAE	8	16
Bahrain	1	1
Total	**122**	**174**

Source: GPCA, Markaz Research

Petrochemical projects worth USD 53bn are under execution in the GCC.

Petrochemical projects worth USD 53bn are under execution in the GCC. Apart from this, projects with an estimated value of USD 134bn are in different stages of planning. Saudi Arabia tops the list with USD 45bn of projects under execution and another USD 40bn of future projects.

Petrochemical prices deteriorated in the first half of 2012 opposed to an increase in oil and Naphtha prices. However, prices rebounded slightly during the second half due to stronger demand. Over the next few months, we expect prices to be under pressure due to concerns on global growth. But on a longer term basis, since most of the incremental demand growth is coming from emerging economies, we foresee stable prices and margins. Phasing out of older plants in the developed world and possible sanctions on Iran should augur well for GCC producers. China's increasing self-

[1] MTPA – Million Tons per Annum

reliance for petrochemical products is a cause of concern for GCC exporters. Sensing the risk, companies in GCC are establishing joint ventures with Chinese companies to set up integrated plants in China in order to tap local demand. But how credible is this strategy is open to question (see the box).

GCC petrochemical industry is grappling with the major problem of natural gas shortage.

GCC petrochemical industry is grappling with the major problem of natural gas shortage, due to increased domestic consumption in areas like electricity generation and desalination, leading to insufficient allocation of ethane to new plants. For instance, there has been no substantial new allocation of ethane for Saudi Arabian petrochemical companies since 2006.

Investing in other countries - Does it make sense?

GCC petrochemical exporters have started worrying about leading developing economies (China and India) marching towards self-sufficiency, crowding them out of the market. To ward off this threat, many GCC countries have started investing directly in these countries in terms of setting up integrated plants. This will ensure assured off-take of oil and supposedly ward off the threat to exports.

Such a proposition would have validity in an era of low oil prices with weaker demand where it will be a buyer's market. This happened during 1998 when oil prices plummeted to $10 and the idea served as an insurance policy. However, since then oil prices have shown not only an increase but structural shift in the oil price to the $80-100 range. This is partly due to increasing demand and partly due to supply fears aided by Arab spring concerns and Iran issue. Global consensus long-term oil price range is at $80-100 and hence the era of cheap oil may be a thing of past.

In this scenario, setting up integrated plants by GCC players in countries like China or India serves no strategic purpose as GCC countries no longer look for assured off-take of oil in a seller's market.

Rather, it takes away the industry from the local shores which wipes out the employment opportunity as well. Also, the cost advantage due to lower transportation cost is also lost if they establish units at geographies far away from the extraction point.

The other side of the argument can be that, even though it is a seller's market, GCC doesn't have the monopoly for Oil and hence emerging economies are free to secure oil from elsewhere and produce petrochemical products themselves. A case in point is China-Kazakhstan, China-Russia oil pipelines and investments made by China in Canadian oil sands for exploration. Apart from assured off-take of products, these JVs also enable GCC companies to participate in hydrocarbon value chain rather than just selling crude oil.

This is the Executive Summary version of the full report.
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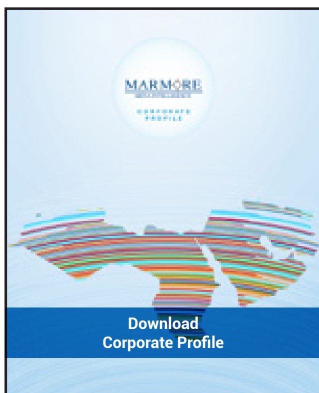

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