



Argus' New US Butadiene Prevailing Monthly Contract Price



The butadiene market is getting more competitive as demand growth struggles to keep pace with new US and European supply. Now more than ever, buyers need to base their contracts on a transparent price assessment.

The butadiene industry has been held back by a flawed indexation methodology, which has provided no way for buyers to know if they were buying butadiene competitively. For sellers, there has been no verifiable way to pass through the total cost of butadiene in butadiene derivative prices. Argus developed a new way to stay competitive in this fast-moving, volatile market.

Argus Butadiene service launched the new US butadiene prevailing monthly contract price, a transparent marker price eliminating the need for an arbitrary index based on production capacities, operating rates or market share.

US butadiene supply is expanding, with new ethane crackers under construction and adding to similar gains in 2014-15 from Europe. While the US is now structurally short of butadiene, additional supply may overwhelm demand growth during the next five years. With these tectonic changes, the market has sought this answer for better indexation and transparency.

What changed in the market?

During August through October of 2016, three major US butadiene producers began to restructure contract prices and eliminate the practice of posting only a base contract price and then adding a confidential surcharge to yield a net transaction price. It is our understanding that the four major US producers will maintain their practice of nominating their contract prices for the next month before the end of the current month.

After consulting with the customers, they will have the option to revise and finalize their initial nominations. Contract buyers have consistently advised that they want to establish a competitive and transparent contract price. US butadiene producers have acknowledged that market conditions will evolve in coming years, with butadiene supply expanding thanks to new ethane-based ethylene crackers in the US.

How will the US butadiene prevailing monthly contract price be calculated?

The four major US butadiene producers nominate contract prices for the coming month with up to a week's notice. With input from their customers, these four producers may revise their initial nominations in order to be competitive. Once prices are deemed final, we will post the "prevailing" contract price as follows:

- If at least 3 of the 4 producers have the same final price, then that will be the "prevailing" contract price.
- If there is any other combination of final prices, then the average will be the "prevailing" contract price.
- We intend to post ONE transparent marker for the industry. We will not report any adjustments, such as discounts, surcharges (adders), transportation fees, etc., to suggest a net transaction price.

“Argus Butadiene service delivers accurate spot and contract information for butadiene, its derivatives as well as energy and feedstocks”



What does the new posting replace?

Major butadiene producers previously posted base contract prices, to which confidential surcharges were added to yield net transaction prices. Since only the base prices were disclosed, price reporting agencies only posted low and high base prices.

Americas Key Prices

	Timing	Price	+/-
Butadiene contract fob <i>¢/lb.</i>	Nov.	\$52.00 - \$54.00	+ \$7.00
Butadiene prevailing contract fob <i>¢/lb.</i>	Nov.	\$52.00	N/A

← Range to be Phased Out

↑ New Assessment

Why are US buyers demanding this change?

At times the butadiene index is calculated over a wide spread between the low and high posted base prices. Since the index range does not incorporate net prices, there was no way for buyers to know if they were buying butadiene competitively, nor was there a verifiable way to pass through the total cost of butadiene in, for example, SBR contract formula prices.

Now the market is going to be much more competitive – the need for a transparent, robust price assessment for indexation. The US market is structurally short of butadiene and relies on imports from Europe, Brazil and Canada to balance demand. Butadiene demand growth may or may not accommodate all of the additional supply over the next 4-5 years.

How will all parties benefit from using the Argus reference price?

- Buyers want to know that their price is competitive across the marketplace.
 - In the short term, buyers and sellers could add a “competitive price clause” with a “meet or release” option in the contracts. This will ensure that all of the major producers recognize the prevailing contract price.
 - In the long term, buyers and sellers may agree

to volume discounts, which is the practice in Europe. We will not report discounts.

- Sellers, including butadiene producers in the US, Canada, Europe and Brazil will be able to meet their sales objectives in a changing marketplace by negotiating with the knowledge that they can base all contracts on one, transparent marker price.

What will this price not reflect?

Argus is publishing the new indexation basis alongside our existing range of high and low contract prices, but we anticipate phasing the obsolete ranges out. As in the past, we will not report discounts, surcharges, aggregation fees, transaction fees, transportation fees or any other adjustments to the monthly assessment.

When will this take effect?

The first US butadiene prevailing monthly contract price was published in the 4 November 2016 issue of Argus Butadiene service. Argus Butadiene service delivers accurate spot and contract information for butadiene, its derivatives as well as energy and feedstocks. It also includes coverage of the C4 markets focusing on economics and auto industry news.

For further information, please contact us

Argus is a leader in petrochemicals and across the value chain, building from petroleum, NGLs and coal capabilities and leveraging strength in refined products and fertilizers. To learn more about our new butadiene assessment or service, please contact us at moreinfo@argusmedia.com or 1 713 968 0000

