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Q&A with Sarah Rae, Vice-President Olefins and Derivatives, Argus



A spotlight on the European Ethylene market

How is the ethylene landscape changing in Europe, and what are the biggest challenges ahead?

The global ethylene and polyethylene industry is going to go through a period of length with more capacity being added — both in the US based on shale gas and in China — than global growth can absorb in the short term. The US-China trade war and fears over the global economy are shaking confidence and creating a more cautious outlook. Europe will not be immune from this trough, there will be additional PE imports to Europe, especially if the trade war persists, but global manufacturers will not want to cannibalise their European market to support their US operations. The European PE market is protected to some extent by tariff barriers and by the complexity of its mature supply chain. However, Europe will import the lower international pricing levels and margins will be dragged down until the global supply-demand balance recovers.

For Europe, the challenge will be to maintain margin in the integrated ethylene-to-PE chain while at the same time sustaining co-product production.

How will changing global trade flows, including the exports of ethylene from the US, affect Europe?

The new Enterprise terminal that is scheduled to start up in the fourth quarter of this year will re-shape global ethylene trade. The US has always been an exporter but volumes have been limited by the size of and loading speed at the existing terminal. The new terminal will by 2021 have 1mn t/yr of loading capacity. From a pure trade perspective, China is the natural destination for these tons but the US-China trade war is distorting this, pushing US tons to southeast Asia and Europe shifting other tonnage to China. European exports will find it difficult to compete on the export market against US tons and Europe is likely to lose its export position in the medium term. But Middle Eastern producers have reduced exports year on year as they have built derivative capacity, and over time the US will also build derivatives to absorb the current length.

What new investments are there in Europe?

There are more investments in Europe than you might expect given the maturity of the industry, and they can be divided into a number of categories:

- Greenfield — there are some greenfield investments, such as the Borealis and Ineos PDH units and the Ineos ethane cracker.
- Debottlenecking — where a producer is expanding the capacity of a plant either by smaller tweaks to the plant or — like OMV's expansion of the Burghausen cracker, the PP expansion by Borealis or the addition of a new furnace at the Grangemouth cracker — substantial standalone investments in their own right.
- Scrap and build — where old capacity is closed and replaced with a new plant based on the same or enlarged capacity — for example the Ineos cumene unit in Germany.
- Investments to improve competitive position — European producers also continue to invest for the future either in feedstock flexibility, logistics or updating some of their ageing plants. Some of Europe's crackers date back to the 1960s so as well as the normal periodic maintenance stoppages, producers are taking the opportunity to update and renew parts of the plants. So it would not be a surprise to see cracker rebuilds in the coming years as producers seek to meet the ambition, and in some cases obligation, of best-available-technology status.
- Recycling – there are many examples of European producers investing either in greener feedstock or to find a way to reuse post-consumer products, such as P&G with its nappy recycling plant in Italy, Sabic and OMV with pilot plants for converting plastic waste into a viable cracker feed, or a trio of companies joining forces in a project they say will close the loop on polystyrene recycling.

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