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The C12-22 Review

Sample Volume 1, Issue 0

A monthly higher alcohols journal

PREVIEW

EU Anti-Dumping Tariffs Have Far-Reaching Impact

Background to the Case

In the late part of 2009, Sasol and Cognis decided to propose an anti-dumping case to the European Commission. The reasoning for this complaint was the depressed level of pricing in Europe and the continuous alleged increase in imports from three countries into Europe namely India, Indonesia and Malaysia. Both companies felt that the low-cost imports eroded their market share and earnings in Europe, so much so that they took the decision to apply for anti-dumping measures on these three countries.

According to Eurostat the imports from the three countries increased steadily from close to 94,000 tons in 2005 to a high of nearly 176,000 tons in 2008 - - an increase of 87 percent. During the financial crisis there was a small decline but in 2010 the earlier levels were exceeded as more South East Asian capacities came on stream. As a pure coincidence, the acquisition of Cognis by BASF was made just after the EU Commission published the fact that a complaint was lodged. This led to a lot of speculation that BASF was involved in the background with this complaint, however sources could not confirm this rumor. Counter-rumors also circulated that BASF opposed the complaint since it implied higher prices in the future.

The Case as it was Brought to the European Commission

On June 30th, 2010, both Sasol and Cognis advanced their complaint to the European Commission in the form as it is described in Article 5 of the Council regulation EC 1225/2009. Both Sasol and Cognis held a fatty alcohol market share of more than 50 percent in the EU27, which required the EU to analyze the complaint. The complaint asked for protection against dumping practices from the countries India, Malaysia and Indonesia for the import of fatty alcohol pure cuts and blends. The complaint argued that these dumping practices caused severe damages to the EU industries.

The complaint focused on saturated alcohols with a carbon chain distribution of C_8 to C_{18} and blends thereof. As both complainants did not have sufficient data for the pricing, they used a mathematical formula to arrive at theoretical prices which the products should be sold at in Europe. (Mind you, both complainants are world market leaders and one would expect these companies to have transparent information on pricing in each and every country.)

To be specific, a mathematical formula based on the following factors are used to arrive at a theoretical price ex-works: i.e. production costs, SG&A and profit. The theoretical price levels were then compared with a net back calculation of real time European sales prices.

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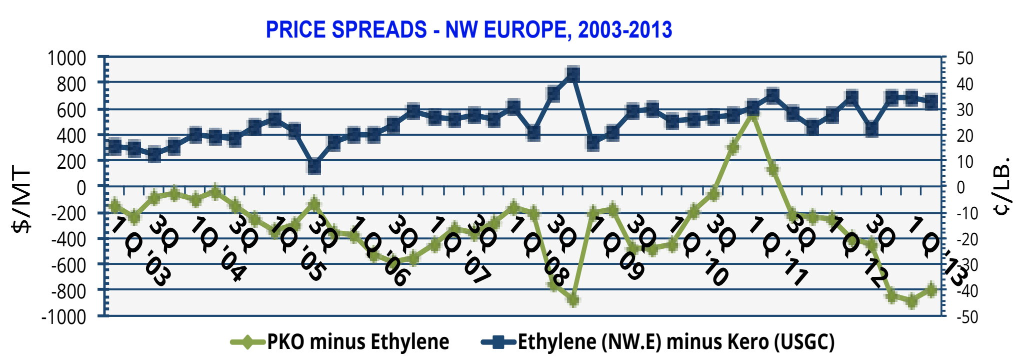
EUROPEAN FATTY ALCOHOL IMPORTS FROM COUNTRIES AFFECTED BY ANTI-DUMPING DUTY CASE, 2005-2011
(Per European Import Data - tons)

Country	2005	2006	2007	2008	2009	2010	2011
India	26,324	27,105	21,677	25,724	22,677	30,693	21,113
Indonesia	14,596	20,148	18,161	34,442	39,971	50,417	36,986
Malaysia	52,765	49,245	71,615	115,672	101,217	104,584	50,550
TOTAL	93,685	96,498	111,453	175,838	163,865	185,694	108,649



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Producer News

New Plant Start-Ups in 2013

Expected in second quarter 2013, Musim Mas is planning the start up of the company's second unit, a new 111,000 ton plant. Commercial availability of the output will follow, in second half 2013. Wilmar is expected to commission the second new Indonesian plant, at Gresik, in February 2013 with production to commence late first quarter 2013. SABIC will start a new Lurgi Wax Ester based plant mid-2013 in Saudi Arabia. KLK will start up its second Davy plant by mid-2013. Wilmar's second plant in Rozenburg, NL is under construction and commissioning is expected June 2013. Commercial production from this unit can be expected by August 2013. Most of the equipment and tanks have been installed and welding is progressing. The new Sanjiang unit is reported ready to run and this new plant is expected to startup in 2013.

Ecogreen to Double Capacity

In November, Ecogreen formally announced a large new unit that will utilize the Lurgi process. The new capacity will be 180,000 tons fatty alcohol at Batam, Indonesia and is targeting late 2014 for startup.

Clariant and Wilmar Establish Amines JV

This 50/50 JV will be established in Singapore for the production and sales of amines and selected derivatives and is expected to be operational by the spring of 2013. Clariant currently operates amines production facilities in Germany and Brazil. Wilmar is planning to build a primary and tertiary amine facility in China next year.

Kolb Expansion at Moerdijk

Dr. Kolb is now one of the largest ethoxylators in Europe. Their fourth reactor went online in October, expanding its Moerdijk, Netherlands plant capacity from 120,000 to 220,000 tons. Kolb also operates a 20,000 ton ethoxylation unit in Switzerland.

ERCA Emery Nears Completion

The ERCA/Emery JV 40,000 ton ethoxylation plant in Moerdijk, the Netherlands is due to startup in the spring of 2013. The fatty alcohols will be provided by Emery and the ethylene oxide by Shell.

Oxiteno Ethoxylation Capacity

Oxiteno plans to add ethoxylation capacity to its plant in Pasadena, TX and expand its capacity in Coatzacoalcos, Mexico. The company has since announced that the total additional capacity would nominally be 100,000 tons and should be online by 2015. It is likely that the actual surfactant ethoxylation capacity would be 80,000 tons.

Sterling Auxiliaries Plans Ethoxylates Plant

The Indian company plans to build a plant to produce ethoxylates and methyl di-ethanolamine in Jubail, Saudi Arabia in 2015. This will be the second ethoxylation plant build in the country, after Saudi Kayan started this year. No capacities have been announced. EO and PO are to be provided by the adjacent Sadra Chemical facility.

CAPACITY WATCH

2013

Producer	Location	Type	Capacity	Status
Bakrie Bros	Indonesia	Davy	40	Started January '13
Sanjiang	China	Oleo	115	Ready to run
Musim Mas	Indonesia	Davy	111	Started April '13
Wilmar	Indonesia	Davy	120	June '13
Wilmar	Netherlands	Davy	120	October '13
KLK	Malaysia	Davy	100	August '13
Saudi Kayan	Saudi Arabia	Lurgi	85	2H-2013

2014

Wuhan/HoTung JV	China	Oleo	80	Q1-2014
Ecogreen	Indonesia	Lurgi	180	Late 2014
		Total	**951**	

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Based on this evidence, both companies complained that alcohols produced in the three countries were dumped on the European market. Beside this, both companies showed that imports into the EU had increased significantly. As a result, both companies claimed that these practices were negatively impacting the alcohol industry in the EU and led to a negative impact on both EU finances as well as employment levels in the EU.

As a result of the complaint, the EU installed a "rapporteur" who investigated the complaint and made recommendations to the Commission to accept or decline the claim as it was brought forward. In the decision which was published on August 13, 2010, the Commission concluded that there was sufficient evidence to proceed with a formal investigation into these alleged anti dumping practices.

An investigation was launched to look into the exporting producers of fatty alcohols in the countries of interest, as well as the independent EU importers, where independence meant "not liased in any way or form to the complaining companies nor the accused companies". Further, the Commission decided to investigate all EU based producers with an objective to determine if any of the claimed damages were real. The investigation comprised of the years 2007 to 2010 and market shares and imports were determined. The period to determine if dumping had occurred and whether damages were caused to European producers ran from July 1, 2009 to June 31, 2010.

The Commission had a maximum of 15 months to come to a final conclusion, but had the right to decide on preliminary measures within 9 months after August 13, 2010.

Preliminary Findings

As described above, the European Commission had the option to come to a preliminary ruling. On May 10, 2011, the Commission published its preliminary ruling with the reasoning that there was enough evidence that the Commission could determine the so called dumping spread and that sufficient damage was caused by this. The spread was higher than 2 percent in all cases and the market shares of all countries were higher than 1 percent of the total demand in the EU. Also, the Commission found that the prices of all three exporting countries over the period of investigation followed the same trend. As a result, the Commission decided that the effects could be seen as cumulative, meaning that the impact of these exports on the EU producers could be seen as one.

The Preliminary Ruling

During the investigation period, the Commission received information in writing from 4 importers, five producers in Europe, 7 Asian producers and 21 users in Europe. The Commission then performed audits in the following companies:

The Commission investigated several aspects to determine a dumping spread as a percent of the CIF Europe price:

- whether domestic sales were more than 5 percent of their export sales to the EU for individual cuts of alcohols
- pricing for products in the home market
- the export price by product with calculations back to an ex-works basis adjusting for currency effects and other factors/abnormalities.

Each individual exporting company brought forward arguments which would have softened the dumping spread, however all these arguments were declined by the Commission in their preliminary ruling.

The dumping spreads according to the preliminary ruling were assessed to producers at the following levels as a percentage of the CIF price Europe:

Other parties, not investigated on new suppliers were to be assessed according to the rate shown above for "others". The Commission found that demand rose at an annual rate of 2.2 percent in 2008 over 2007 levels and dropped in 2009 (financial crisis) by 4.8 percent. Demand recovered in 2010 at a 4.6 percent annual rate. Over the period, imports into Europe increased steadily with the exception of 2009. The utilization rate of the European producers dropped by 17 percent over the entire 2007 - 2010 period. The Commission also found that the ROE (return on equity), already negative in 2007, deteriorated during the period through 2010. The same was true for cash flow and operating loss. Based on all these factors, including a decrease in employment of 14 percent, the Commission decided that there were sufficient grounds for damages incurred.

The pressure on the EU producers was further increased by

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AUDITS CONDUCTED BY EC			
EU Producer	Importer	User in EU	Exporting Producers
Cognis Germany	Oleo Solutions UK	Henkel Germany	Godrej Industries India
Cognis France		PCC Rokita	VVF India
Sasol O&S Germany		P&G Switzerland	Ecogreen Indonesia
		Unilever Holland	Musim Mas Indonesia
		Zschimmer & Schwarz Italy	Fatty Chemical Malaysia
			KLK Malaysia
			Emery Malaysia

the severe decrease in exports, which amounted to 55 percent in terms of volume. The Commission concluded that in order to protect the interest of the European producers, an implementation of anti-dumping measures was justified, such that the EU producers could regain lost market share and could recuperate the differentials in production costs between the Asian producers and the EU producers. Further, the Commission concluded that the users could bear the higher costs of raw materials as the dumping measures were relatively minor.

The Commission decided based on all facts to install an anti-dumping import tax which equaled the dumping spread as in the table above. This import tax was temporary and had a validity of a maximum of 6 months.

The Final Ruling

During the period between the preliminary ruling and the final ruling, the Commission collected further information and discussed the findings with all interested and affected parties. One of the items discussed was the exclusion of branched Oxo-based alcohols. Clearly if these were included, the pricing differentials would have been significantly less. By excluding them, the Commission surely helped the EU producers. All arguments for revision of the Indian dumping spreads were declined by the Commission and therefore the Commission decided to confirm these values. For the Indonesian producers, two small adjustments were made in terms of the export price and a small adjustment in the home market pricing. All other arguments for changes were declined by the Commission. The result was that the Commission changed the dumping spreads to:

- Ecogreen: 7.3 percent (up from 6.3 percent),
- Musim Mas: 5.4 percent (up from 7.6 percent),

For the Malaysian Companies, several arguments were accepted by the Commission. Some small changes were the result of a major argument by Fatty Chemicals, resulting in a significant change in their dumping spread. The other main arguments however were declined by the Commission and final dumping spreads were set at:

- KLK: 3.3 percent (down from 5 percent),
- Emery: 5.3 percent (unchanged from 5.3 percent),
- Fatty Chemical: 5.7 percent (down from 13.8 percent).

An interesting side development occurred in the process between May and November. The completion of the acquisition of Cognis by BASF led to the new entity's rethinking their position in the anti-dumping process. BASF, now a claimant, is also a user of fatty alcohols. This made BASF change its position to a neutral stance in the proceedings. There was also considerable pressure on BASF by its customers to withdraw from the process as the European soapers and converters were extremely upset by the event. The shift to neutral was a useful political solution by BASF since by not withdrawing, they supported Sasol and at the same time appeased customers. This shifted pressure back on the Commission and on Sasol. The Commission decided that Sasol's market share could easily achieve the 25 percent hurdle, so the Commission saw no reason to stop the proceedings. This left Sasol on its own, deciding not to withdraw the complaint.

The Commission in its final ruling further confirmed all its conclusions as laid out in the preliminary ruling with some minor changes. Therefore the Commission on November 8, 2011, set the following anti-dumping import taxes for a period of 5 years:

PRELIMINARY DUMPING SPREAD AND PRELIMINARY ANTI-DUMPING TARIFFS BY PRODUCER					
India		Indonesia		Malaysia	
Godrej	9.3%	Ecogreen	6.3%	Fatty Chemical	13.8%
VVF	4.8%	Musim Mas	7.6%	KLK	5.0%
				Emery	5.3%
Others	9.3%	Others	7.6%	Others	13.8%

At this point, the inclusion of an "Others" category for each penalized country indicates that other exporters to Europe are to see these penalties applied as well. This only affects the producer FPG in Malaysia at this stage. And, since FPG typically exports methyl esters to Europe from Malaysia, the finding is not material.

As the findings will apply for another five years, presumably new producers in these locations will be affected. Early next year, Wilmar will be the first new supplier to start operations in one of the affected countries. Wilmar has apparently been presenting a case that they should be excused from the levy but as yet, there is no sign they will be successful.

The Appeal

On January 21, 2012, Ecogreen lodged an appeal against the ruling of the Commission. Ecogreen attested that its Singapore subsidiary Ecogreen Oleochemicals Singapore Pte. Ltd. and PT Ecogreen Oleochemicals are a single economic entity, and the Commission was wrong to apply commissions for both entities and thereby reach a low net back. On the other hand Ecogreen further argued: if the Commission was right in not accepting a single economic entity, the 5 percent commission applied was too high and thereby resulted in an excessively low net back being calculated which lead the Commission to false conclusions.

On January 20, 2012, Musim Mas has lodged a similar appeal on multiple grounds. First, the company contested that its Singapore subsidiary was to be considered as a single economic entity. Second, in the determination of the net back for sales to Europe the Commission deducted too high commissions that were then applied twice, leading to a false conclusion (namely that the ex-works price for the export sales achieved became too low due to the double counting).

Final Judgement

The Commission has agreed with the reasoning of Ecogreen and has reduced the anti-dumping tax to zero percent and returned all duties already paid by Ecogreen. In the case of Musim Mas, there seems to be some small differences in the supply chain between Musim Mas and Ecogreen, which led the Commission to decline the appeal by Musim Mas. The company has now brought the case to the European Court for final judgement with prospects that the case has now become a long legal battle.

Implications for the European Market

What does all of this mean to the consumer, the soapers, the converters, the EU producers, or the Asian producers?

What is clear is that there are only two winners in this process, namely BASF and Sasol. They now will have a playing field where they have an inherent competitive advantage versus the importers. Not only this, they can bring this advantage to the converters not back-integrated to alcohols. The beneficiaries always have the choice of whether to favor shareholder profits or take the advantage into the value chain and exploit the new found advantage.

For the customers, it could mean either buy from BASF or Sasol, or pressure other suppliers to match the prices of the two. This could lead to margin compression for the converters, decreased competition, and eventually lead to a restructuring. Such a development would not be in the interest of surfactant customers.

For the Asian producers, there are limited options. First is to match the prices of Sasol and BASF or find outlets for their product in other regions like North America or Asia. A second option is to forward integrate in Europe and compete on the whole value chain like Sasol and BASF.

An interesting development is the appearance of Wilmar in the European market with a new 120,000 ton fatty alcohol plant. This plant will certainly compete with the imports from Asia, and at the same time will target the existing European capacity through alliances with independent converters. The story is not expected to end there. ■

ANTI-DUMPING DUTIES BY PRODUCER					
India	Per ton	Indonesia	Per ton	Malaysia	Per ton
Godrej	€86.99	Ecogreen	€80.34[a]	Emery	€61.01
VVF	€46.98	Musim Mas	€45.63	Fatty Chemical	€51.07
				KLK	€35.19
Others	€86.99	Others	€80.34[b]	Others	€61.01
[a] Successfully appealed to €Ø.					
[b] Revised to €45.63					

C_{12-22} Alcohols Marketplace

The C12-22 review takes two separate approaches to deliver a deeper insight into the pricing of higher alcohols.

Each issue will contain a graphical section to depict the spread in prices between different raw materials, alcohols and competing materials. For instance, we will include the following set of graphs addressing the following relationships:

1. PKO vs CNO to compare the economics of utilizing PKO vs CNO, especially when taking the pricing of long chain and short chain alcohols into account.
2. Ethylene vs kerosene vs PKO will provide insight on how the spreads of the different surfactant raw materials behave, and give insight on the margin development expected for alcohol producers.
3. Synthetic alcohol pricing vs ethylene and kerosene. This will provide the subscriber with insights on how the margins look to develop for synthetic alcohols as well as relative to LAB.
4. Oleo-alcohol pricing versus PKO. This will point out the margin development in oleo-alcohols and the relationships of alcohol pricing in the different regions. It can assist the subscriber in predicting future alcohol prices in relationship to raw material developments.

The second section writes up the developments in alcohol and raw material pricing graphics in a narrative form. Significant developments in raw material and alcohol pricing will be identified. This section also provides analysis of the graphs and points out interesting characteristics, aberrations and potential causes.

The following text is an indication of the kind of discussion that is to be included in the report to give insight towards future price direction.

CAHA sees pricing in Asia currently for C_{12}-$_{14}$ as well as long and short chain alcohols in a range between $xxx to $xxx FOB Asia. Bulk shipments are in the lower end of the range whereas Flexis achieve somewhat higher costs and command a slight premium. It has been reported that demand is slowly recovering with China re-entering the market, however the pace of the demand increase from China is slow but should pick up after Chinese New Year. Given the current low PKO price and levels of glycerine credits, a healthy margin remains in place for the Asian producers, albeit only for those that have managed inventories well and have tight cost controls. Oleo raw materials have been relatively stable hovering between $xxx and $xxx since the beginning of December and will not change until a major rebound in CPO prices occurs. It can be expected that towards the end of Q1, CPO will begin to rebound as stocks come down due to the seasonal drop of in FFB production. If this occurs, PKO prices will be carried upward along with the price of CPO. The futures on PKO exports point to a potential recovery in prices in April as currently traded rates average $840\ton compared with $760/ton in January.

In Europe the prices of mid-cut, short chain and long chain alcohols are broadly in line. Current reports show that prices are in the €xxx range and we currently see a trading corridor of €xxx per ton ex-tank Rotterdam. Interestingly the market in Europe has moved almost to a par level with Asia once freight, import and anti-dumping duties, storage, financing and local margin are taken into account. As long as Asia remains long on alcohols, a situation where a disconnect may develop between Asia and Europe exits and where the European market price may move below the equivalent Asian price.

The prices in North America have moved down considerably in Q1 versus Q4 2012. Currently we see mid-cut traded in North America at levels between xxx and xxx¢/lb. Long chain in North America may be at a slight premium versus mid-cut whereas short chain may be at a slight discount. Since there are a number of customers which buy on formula basis (mostly synthetic alcohols). With the extremely attractive ethylene prices in North America those formula prices will be at a significant discount to the numbers reported above. The discrepancy between Asian/European prices on the one hand and American prices on the other cannot be sustained. This is despite the delay to new plant start-ups expected earlier in Q1, and supply pressure now being deferred to Q3. Pressure by purchasing departments and Asian producers looking to capture business in the higher priced markets will move them in line with the other markets (after taking into account differences in supply chain costs).