

# Benzene's price climbs

IVAN LERNER

DESPITE SOFTENING crude oil prices, strains on availability have driven benzene prices to record levels in the past few weeks.

"Benzene has been more inflationary than crude oil," says Brian Gladden, vice president and general manager of GE Plastics' Lexan and resin product business.

As of Oct. 6, US Gulf benzene contract prices were settled at \$4/gallon (about \$1,200/tonne), up 45 cents from September, and a record high.

But three years ago, benzene's price was around \$1.15/gal. "This is a massive inflationary shock for us and has forced us to look at our pricing and cost structure," comments Gladden. "Looking forward, we have to assume that prices will be high and volatile."

With prices in Asia substantially lower, Gladden says that GE Plastics will be looking to that region for future benzene purchases for the time being.

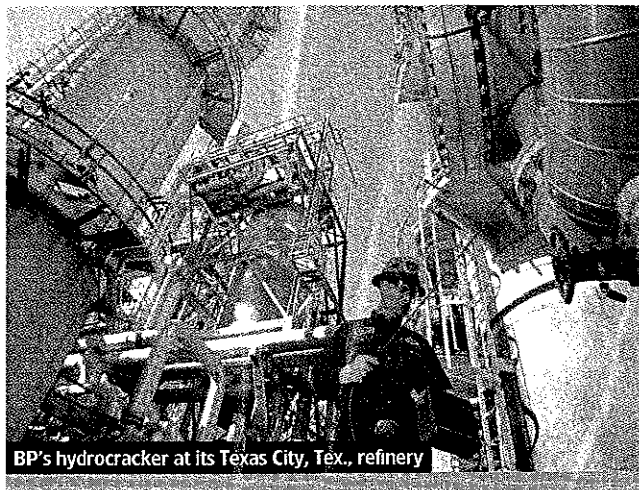
(There may be some relief on the horizon: as of Oct. 11, November material out of the Lower Mississippi River was being offered at \$3.57-\$3.60/gallon.)

According to the San Francisco-based consultancy Nexant, from now until 2015, about 14m tonne/year of new benzene capacity will be required to meet future market demand.

### ERRATIC IMPORTS

The US market is balanced by imports, and according to Simon Palmer, director of aromatics for the Houston-based market research firm Chemical Market Associates Inc. (CMAI), "the flow of imports into the US has been highly erratic."

The US has been going through a period where imports have not been sufficient to bal-



**"Looking forward, we have to assume that prices will be high and volatile"**

ance the market, "so we have been drawing on inventory. That has had a significant impact on the way that prices have behaved, and has pushed them up to record levels for contract pricing."

The US imports benzene predominantly from Canada and Brazil, with Northeast Asia and Western Europe being incremental providers.

"That's really the issue," says Palmer: the US does not have a stable import flow from anywhere other than the Americas. "And the supply from the Americas alone is insufficient to fill the deficit."

With a three to eight week lead time for shipping from the other regions, "the US market can move significantly out of balance before the cavalry arrives," adds the consultant.

Additionally, it was thought that BP's plant at Texas City would be producing more "normal" quantities by now, "and that's not the case," says CMAI's Palmer.

Meanwhile, some of the capacity that was scheduled

to come on in Asia-Pacific has been slow to make itself felt. It is not that Asian benzene capacity has been late coming on stream; "it is just that their presence has not been felt as quickly as it was originally expected to be."

Palmer says this could be the result of several things, including Asian producers desire to build inventory, or the satisfaction of local customers whose demand has to be met first.

"The US is seen as the market to send excess inventory," Palmer says, "and if an Asian benzene producer has his inventories where he wants them, then he does not need to send any to the US."

### FREE MARKET BACKFIRE?

According to CMAI's Palmer, US buyers generally tend to rely on "the free-market mechanism to create the right environment for the imports to flow. Fundamentally, product should flow to the US and traders are generally highly efficient at playing the arbitrage, so they have

for the most part not contracted up regular volumes directly out of Europe or Asia."

But Palmer points out that sometimes the free market is not particularly efficient, as the product flow tends to be "all or nothing." He says that this is especially the case when prices are in heavy contango (when distant delivery prices exceed spot prices) or backwardation (when prices are lower for distant delivery than for sooner delivery).

However, the domestic US benzene market is projected to become better supplied once November arrives. "There are some turnarounds going on in October that will be behind us, which will probably take the edge off the price," notes Palmer. He acknowledges that some market observers were expecting prices to edge off in September, "and it didn't. If it doesn't happen by November, it will happen eventually in the next few months - it is almost inevitable."

Japanese benzene players are expecting US market quotes for the rest of 2006 to move between the high \$900s/tonne and \$1,000/tonne.

### OUT OF ASIA

Benzene movement out of Asia is likely to continue, suggests ICIS pricing, and there are factors indicating that the region may reach surplus levels by the second quarter of 2007.

Asian benzene prices have dropped by roughly \$100-\$150 since August, to hover around the \$850/tonne mark. Prices dropped due to several styrene monomer (a benzene derivative) producers shutting down facilities for maintenance, as well as the weakened prices of crude oil and naphtha.

But because the availability of space on cargo ships from Asia is

currently tight, getting this lower-cost benzene to the US may be difficult, and its impact may not be felt until November or later.

Meanwhile, some Chinese, Korean and Japanese manufacturers have indicated that they

will either start new facilities or bring back on line some shut-down units. This includes Urumqi Petrochemicals of China's \$100m investment for a new benzene production unit at its existing plant, and Idemitsu

Kosan of Chiba, Japan, which started commercial operations at its 250,000 tonne/year light naphtha reformer in September.

But there have been no announced plans for increased Asian production of such

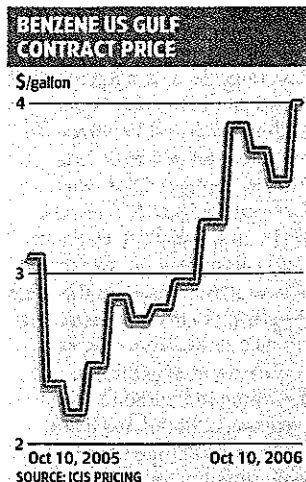
benzene derivatives as styrene monomer or phenol, and observers feel that a surplus will probably occur in the region.

#### HOW DID WE GET HERE?

In the mid-1990s, the US and EU imposed regulations requiring refiners to begin reducing gasoline's benzene content to a maximum of 1%.

Meanwhile, toluene disproportionation, used to produce paraxylene, created more benzene as a coproduct.

Returns were "adversely" impacted, and producers "faced serious disposal problems," says a Shell Chemicals representative. "In response, the swing producers switched off hydrodealkylation (HDA) units or even shut them down permanently." By 2000, "benzene was sliding into a deep trough and stayed there" until about 2003/2004.



**BENZENE PRODUCTION IN CHINA (IN TK TONS)**

	2005	2006		
January	237.9	January		N/A
February	218.3	February		279.4
March	243	March		287.1
April	232.9	April		274.2
May	230.4	May		305.6
June	219.3	June		287.5
July	243.7	July		283
August	256.6			-
September	237.6			-
October	245.6			-
November	257.6			-
December	284.9			-

SOURCE: CHINA ECONOMIC INFORMATION SERVICE/NATIONAL BUREAU OF STATISTICS (CHINA)



### SEEKING TO MAKE ACQUISITIONS/EQUITY INVESTMENTS

Aceto Corporation, established in 1947, a global leader in the sourcing, distribution and marketing of biopharmaceuticals, chemically-derived pharmaceuticals, specialty chemicals and agrochemicals is seeking to acquire or enter into strategic, equity based relationships with similar businesses.

Company strengths include unparalleled global sourcing capabilities, regulatory support for our suppliers and customers, and a top notch sales and distribution organization.

If you are thinking of selling your business or some other financial alternative, please contact us first. We will consider any related business.

David Rimmler  
 Group Vice President, Manager Business Development  
 Aceto Corporation-(Nasdaq-ACET)  
 (516) 627-6000 Ext. 278  
 drimmler@aceto.com