



CHEMSYSTEMS

SBA PROGRAM

Report Abstract

Methanol Strategic Business Analysis

October 2009

CHEMSYSTEMS SBA PROGRAM

Report Abstract

Methanol Strategic Business Analysis

October 2009



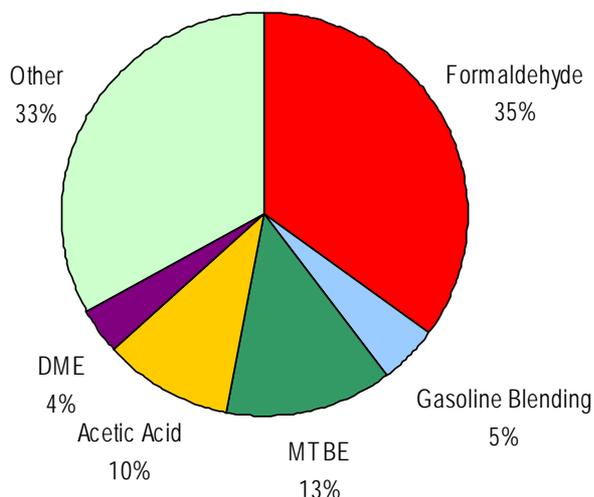
Griffin House, 1st Floor South, 161 Hammersmith Road, London W6 8BS, UK
Tel: +44 20 7950 1600 Fax: +44 20 7950 1550

Methanol Strategic Business Analysis

The methanol industry has suffered dramatic changes in the 2008 and 2009 period. From strong demand growth and unprecedented high prices, the situation dramatically reversed as the global economic crisis impacted the sector.

The continued weakness of the construction and automotive sectors in North America and Western Europe had a big impact on methanol consumption resulting in reduced demand for chemical uses, formaldehyde and acetic acid in particular. There was some mitigation provided by “new uses” of methanol, in particular, DME in China for heating during the winter months and gasoline blending. DME and gasoline blending account for 4 and 5 percent, respectively, of global demand and are expected to grow well above GDP as well as methanol-to-olefins when several facilities are expected to come on stream from 2010 onwards.

Figure 1.1 Methanol Demand by End Use
(2008)



XLS 00289/SBA/2009_Methanol/Report Abstract

Asia-Pacific, in particular China, is expected to continue to be the driver for methanol demand mitigating the slowdown of other major markets such as North America and Western Europe.

Russian producers have been operating at reduced rates and have extended maintenance and turnaround periods amid poor market conditions with methanol netbacks falling below production costs. They are serving local markets as high land freight costs and low methanol prices make them less competitive in export markets.

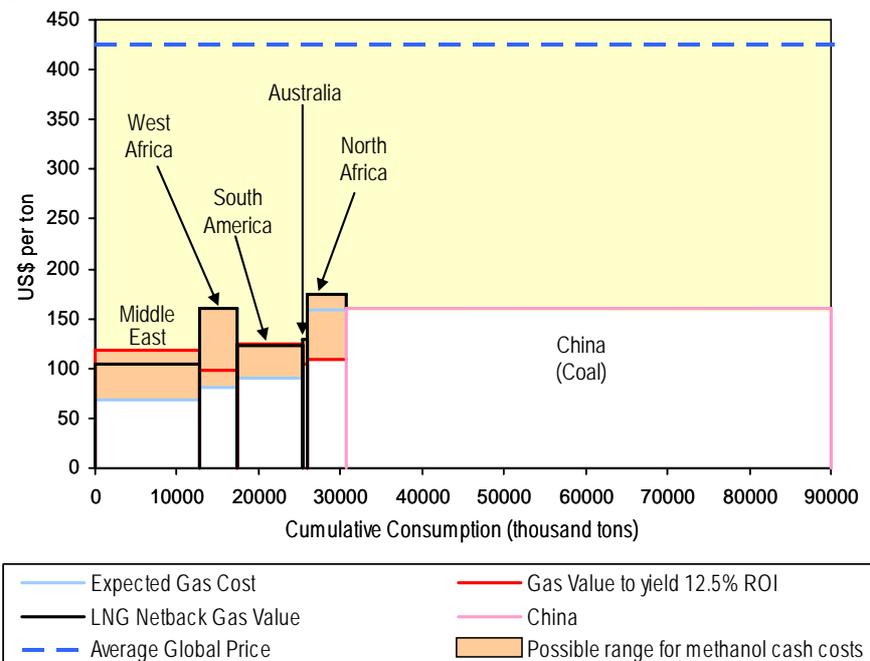
In China, significant capacity has shut down due to poor economics. Some coal-based producers have incurred in negative margins whereas gas-based producers have suffered supply shortages during the winter. Natural gas supply for domestic heating is prioritized over chemical uses. Hence, record high imports have been observed in the country which led to an antidumping investigation by the Chinese government. Imports from Saudi Arabia, New Zealand, Malaysia and Indonesia could be affected.

The recent surge in LNG projects, driven by strong demand for gas in the major economies and a prolonged period of high crude oil costs leading to high natural gas costs in the major markets, is leading to a shift in this historic position. As more LNG is developed, more infrastructure is put in place, leading to the improved connection of producing regions and markets. The increasing amounts of LNG used to supply natural gas demand in the major markets means that the so-called “stranded-gas” regions are no longer stranded for large reserves (above 3-4 tcf), unless land-locked. Thus the value of the gas in locations such as the Middle East could be represented by the LNG netbacks afforded to competitively supply the major gas markets.

However, despite the recent recovery of energy prices after their sharp decline in the second half of 2008, natural gas prices in the U.S. are not expected to reach 2008 levels. Indeed in the short term they will be much lower due to additional gas supply. Alaskan natural gas will be made available in most of the U.S. LNG imports will become the swing supply with plenty regasification capacity available. High U.S. gas prices would attract LNG supply and lower prices will mean that cargoes will go elsewhere having an influence in natural gas prices in other regions. Lower natural gas prices in the U.S. could position the methanol industry in a better competitive position relative to LNG in gas rich regions such as Trinidad and Venezuela. Nexant’s multiclient report “Sailing into Unknown Waters, Where Next for Global Gas Trade and Pricing?”, contains full details on our natural gas outlook.

There is clear upward pressure on natural gas prices around the world even in locations where prices have historically been “fixed” as the high crude oil environment generates much higher returns to such gas-based projects. It therefore seems likely that no (or very few) new projects will enjoy the low gas prices currently enjoyed by existing projects. Consequently, when new projects are benchmarked against existing competitors, the customary “lower quartile” cost position expected by investors and lenders is unlikely to be achieved.

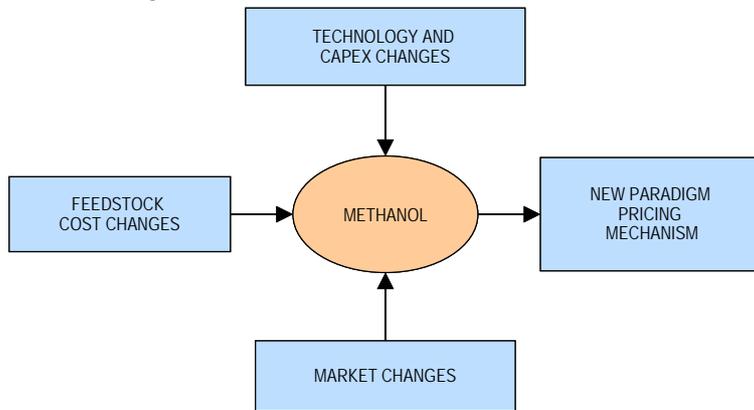
Figure 1.2 Potential Cash Costs for Projected New Methanol Supply



XLS 00289/SBA/2009_Methanol/Report Abstract

Methanol demand will continue to grow and it therefore follows that new capacity will be required to satisfy this demand. The question now arises of how competitive will be this new capacity required to meet future demand?

Figure 1.3 Methanol Business Drivers



XLS 00289/SBA/2009_Methanol/Report Abstract

Nexant’s wealth of experience in the methanol sector, combined with our wider global presence in the upstream oil and gas, refined products, biofuel and petrochemical industries, provides us with a unique overview of all factors influencing the development of the methanol business worldwide. This program distils the core issues and insights from our accumulated expertise to providing subscribers with a good understanding of not only the fundamental drivers but also likely future strategic direction of the methanol industry. We believe this is an invaluable source of insight and strategic business analysis for executives and managers at all levels of the business.

Figure 1.4 Nexant’s Unique Blend of Capabilities

STRATEGY CONSULTING	UPSTREAM OIL & GAS PRACTICE
<ul style="list-style-type: none"> ▪ Distilling key trends to understand businesses ▪ Portfolio appraisal and positioning ▪ Merger & acquisition support ▪ Customer segmentation ▪ Manufacturing Strategy ▪ Value chain positioning ▪ Growth Strategy ▪ Industry structure analyses 	<ul style="list-style-type: none"> ▪ Global gas availability and pricing ▪ Strong experience of alternative gas monetization options including LNG, GTL, ammonia and power ▪ National and regional energy planning ▪ Oil & gas development projects ▪ Upstream oil & gas asset management ▪ Gas value chain analyses
CHEMICALS PRACTICE	DOWNSTREAM OIL AND BIOFUELS PRACTICE
<ul style="list-style-type: none"> ▪ Strong understanding of methanol and derivative markets, technology and economics ▪ Strong olefins experience and active MTO/MTP evaluation engagements ▪ Market dynamics research and analysis and forecasts ▪ Pricing and profitability scenarios ▪ Performance benchmarking ▪ Cost curve assessments ▪ Techno-economic feasibility studies 	<ul style="list-style-type: none"> ▪ Petroleum value chain analysis including ports & terminals, refining, storage & distribution, terminals & depots, fuel wholesaling and retailing ▪ Biofuel market and technology development ▪ Good understanding of fuel markets and the potential for methanol use as a gasoline blendstock, bio-diesel feedstock and DME feedstock

XLS 00289/SBA/2009_Methanol/Report Abstract

See Nexant’s new **Ammonia-Urea SBA Program** for similar coverage for this sector.



Nexant, Inc.

San Francisco
London
Tokyo
Bangkok
New York
Washington
Houston
Phoenix
Madison
Boulder
Dusseldorf
Beijing
Shanghai
Paris

www.chemsystems.com