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Fracking becomes PE game changer

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Published: April 26, 2013 3:51 pm ET

Updated: April 26, 2013 4:15 pm ET

Font size:



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Image By: Rich Williams

Growth was the order of the day at the recent IHS World Petrochemical Conference in Houston. The mood was much better than it was at similar events five years ago, most of which could have been titled "How To Prepare for the Coming Apocalypse."

That's because economies in the U.S. and around the world were in free fall at that time as a global recession took hold. Overspeculation and too-easy credit had the world economy on the brink. Governments had to act in many cases to slam on the brakes and prevent society from reverting to hunting and gathering as primitive tribes did.

All of this, of course, was before improved methods of hydraulic fracturing (fracking) and horizontal drilling allowed exploration firms throughout North America to access natural gas deposits throughout the region. These ample supplies of gas then were converted into ethane and into ethylene by the region's petrochemical kingpins. As a result, instead of wondering if North America ever would build a new polyethylene resin plant, more than 10 billion

pounds of new capacity has been announced since late 2011.

If even half of this new capacity comes on line as expected beginning in 2016 and 2017, the rules of the PE game will be changed. ExxonMobil Chemical President Steve Pryor did a great job of evangelizing this message as the keynote speaker at the IHS event. As a 40-year industry veteran, Pryor knows of what he speaks. ExxonMobil also is adding so much new capacity in Baytown, Texas, that Pryor could be elected mayor of that Houston-area town in a landslide.

Some surprises did emerge from the IHS event, which drew more than 1,000 attendees. IHS staffer Robin Waters predicted that North America would receive new polypropylene resin capacity, although no such moves have publicly been announced. Waters' colleague Mike Smith made a similar prediction for the North American PVC market.

PVC, like PE, could benefit from low-priced ethylene feedstock as well as from low costs for gas-fired electricity needed to make chlorine. The region's PVC makers, however, might want to be sure the U.S. housing market is on sturdier legs before throwing open the floodgates. They've impressively been able to reposition PVC as an export material

and have weathered the last half-decade in better shape than other commodity resin makers. PE makers should be looking to PVC's example, since a still-recovering North American consumer market is unlikely to absorb these waves of new PE, making exports a needed option.

Surprising comments were made by ExxonMobil's Pryor and IHS expert Nick Vafiadis that new PE processing capacity is likely headed for North America to cash in on the cost-advantaged PE that will be surfacing. Vafiadis said this new capacity likely would be in production of film and bags. These PE end products then would be exported from North America to markets around the world. Makers of plastic processing equipment must have felt tingles down their spines when Pryor and Vafiadis made their predictions.

So are happy days here again? Well, the first thing that needs to happen is for natural gas exploration to continue and for all those wells to keep producing up to expectations. This will require the industry

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to respond to concerns about alleged environmental impacts of the fracking process. It's handled these concerns well to date, using science and a solid track record of safety to make its case.

If even half of the predictions made by the IHS gang come true, the North American plastics market is going to be a much more enjoyable place to be in the years ahead.

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