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ALPHA-OLEFIN DEMAND TO REBOUND

The market for alpha-olefins is beginning to pick up after eighteen months of weak demand and dismal pricing in many segments. "2001 was a very difficult year, especially for comonomers, but the underlying fundamentals are sound, and the market should improve quickly as the economy rebounds," says Marilyn Bradshaw, VP and Alpha-Olefins Project Leader for Colin A. Houston & Associates, Inc. (CAHA), a consulting firm in Brewster, NY.

Polyolefin comonomers are the largest end use, accounting for over 50 percent of global alpha-olefin consumption in 2000, according to *Alpha-Olefins - World Markets, 2000-2010*, a recent multiclient study published by CAHA. It forecasts that on a global basis, comonomer demand will grow at almost 9 percent/year to 2010. The total global consumption of linear alpha-olefins in direct end uses will grow more than 6 percent/year, from 2.5 million tons in 2000 to 4.7 million tons in 2010, according to CAHA. The study quantifies production and consumption of individual alpha-olefin chain lengths and details eighteen end use markets in five regions.

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One of the key issues for the alpha-olefins market is that octene-1 supplies have not kept pace with demand, and in spite of new alpha-olefin capacity due on stream in the next few years, octene-1 use is destined to be supply-constrained unless new routes to produce octene-1 are adopted. Dow is by far the largest producer of octene-based copolymers, accounting for over two-thirds of octene-1 comonomer consumption.

The second-largest market for alpha-olefins is polyalphaolefins (PAO) for synthetic lubricants, which accounts for over 85 percent of decene-1 consumption. “PAO is facing a competitive challenge from Group III base oils, and will grow only half as fast as it did in the 1990s,” says Ms. Bradshaw. “Alpha-olefin producers haven’t put much effort into developing alternative uses for decene-1 because the PAO market took every available pound for years. The decene-1 market may be out of balance for awhile.”

One of the bright spots for alpha-olefins is the oilfield drilling fluids market. The use of alpha-olefins as is, and isomerized to internal olefins, has skyrocketed in the last three years due to changes in environmental regulations primarily related to offshore drilling in the Gulf of Mexico. Because they are co-products with other chain lengths, suppliers can’t produce enough C₁₆ and C₁₈ olefins to satisfy oilfield demand, according to CAHA.

There are currently only eight alpha-olefin producers worldwide, not including producers of on-purpose butene-1. In North America, Chevron Phillips brought a new 340,000 ton/year plant on stream Texas in 2000, BP started up its 250,000 ton/year

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plant in Joffre, Alberta in mid-2001, and Shell is planning to begin commercial production at a new 318,000 ton/year plant in Louisiana in the second quarter of this year. In South Africa, Sasol has three new units under consideration, — for hexene-1 and octene-1 as well as a multipurpose unit, — but none have received final approval yet.

Two new producers are expected to start up plants by 2004. Q-Chem, the joint venture of Chevron Phillips and Qatar General Petroleum Company (QGPC), plans to bring a 47,000 ton/year hexene-1 plant on stream in Qatar in the first quarter of 2003. SABIC is planning to build a 150,000 ton/year plant at Al-Jubail by 2004. It will be based on technology jointly developed with Linde, and is expected to emphasize the production of lower chain lengths for captive use as polyethylene comonomers.

Alpha-olefin capacity will increase from 2.6 million tons/year at the end of 1999 to 3.5 million tons/year by the end of 2002, and could reach 4.2 million tons/year by 2005 if all the potential new plants under consideration are built, according to CAHA. “It’s likely that some of the new capacity will be delayed for a few years, but by 2007 or 2008 it will definitely be needed,” says Ms. Bradshaw.

CAHA established a website a year ago to give clients Internet access to the key data as the study progressed. The Alpha-Olefins Market Intelligence Database now includes complete global and regional data detailing alpha-olefin production by chain length and consumption by end use and by chain length. CAHA’s monthly newsletter, ALPHA-OLEFIN UPDATE - PRICING AND MARKET DEVELOPMENTS, is also available

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to subscribers online at www.alpha-olefins.com/ao

Details of the 700-page multiclient study are available from Colin A. Houston & Associates, Inc., 20 Milltown Road, Brewster, NY, 10509; phone: 845 279-7891; fax: 845 279-7751; email: alpha-olefins@colinhouston.com.

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