

US petrochemicals industry alarmed at potential China tariffs

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China's plan to impose 25% tariffs on 106 US products, in response to President Donald Trump's proposed import taxes on \$50 billion in Chinese goods, includes several petrochemical products for which the Asian country is a critical export market, prompting a swift response from the industry's trade group.

"China is one of the US chemical industry's most important trading partners, importing 11 percent, or \$3.2 billion, of all U.S. plastic resins in 2017," American Chemistry Council CEO Cal Dooley said in a statement after China's tariff plan was disclosed Wednesday. "We are particularly concerned that 40 percent of the products to which China has assigned new tariffs are chemicals, including polyethylene, PVC, polycarbonates, acrylates, and others."

US tariffs on Chinese goods cannot take effect until May, after public comment periods. China did not specify when its tariffs may take effect.

ACC represents major chemical manufacturers, including DowDuPont, ExxonMobil Chemical, Chevron Phillips Chemical, Huntsman and LyondellBasell. Those companies did not respond to requests for comment, leaving ACC to speak for them.

However, many have new plants among the nearly \$185 billion in new chemical infrastructure, expansions and facility restarts in the US -- largely concentrated along the US Gulf Coast -- that will make some of the products facing new tariffs.

The US natural gas shale boom unlocked vast deposits of ethane, the cheap feedstock of choice for eight new steam crackers starting up in the US from 2017 to 2019, which will feed ethylene to 14 new polyethylene plants starting up in the same span. A second wave of crackers and derivative plants, including PE, are slated to come online post-2020.

The overall impact of the tariffs would be higher global polyethylene prices, according to S&P Global Platts Analytics. The US and Middle East are the main global suppliers to PE short markets like Asia, so any tariff would raise prices -- the issue would be which region supplies China.

Of 6.36 million mt/year of new polyethylene capacity coming online from 2017-2019, 45% will make linear-low density polyethylene, and 12% will make low density polyethylene. Both grades are used to make film, like shrink wrap, while LDPE also can be used for stronger thicker plastic containers like detergent bottles.

UNCLEAR IF LLDPE INCLUDED

China's list of targeted products specifically includes LDPE. Market sources, including the ACC, were working to determine whether LLDPE also was included, as its chemical makeup is very similar to LDPE and in line with specifications on China's list. However the trade code specified was only for LDPE resin.

The initial wave of US Gulf Coast polyethylene units in 2017 did not include new LDPE capacity, but several projects slated to start up next year will, according to Platts Analytics and company announcements.

Formosa Plastics USA is building a 625,000 mt/year LDPE plant in Point Comfort, Texas, giving the company its entrance to the market after previously producing high-density polyethylene and LLDPE grades.

Sasol, which opened a joint HDPE plant with Ineos in 2017 along the Houston Ship Channel, is working to bring its Lake Charles, Louisiana, complex online, which will include 450,000 mt/year of LDPE capacity in late 2018 or early 2019, according to market sources.

DowDuPont also is set to bring 350,000 mt/year of new LDPE capacity online at its Freeport, Texas, complex this spring.

Most, if not all, of the new US polyethylene output will be exported, as North America is already oversupplied. Last year, the US and Canada exported 15% of the region's polyethylene output, or 3.47 million mt.

China received 12% of those exports in 2017, the third-largest recipient behind Mexico and Canada, according to US International Trade Commission data.

"Without China, I just don't see where all this goes," a US-based polymer trader said, noting that regions like Latin America and Africa -- while growing markets -- do not have anywhere near China's buying power.

PACKAGERS HAD ALSO HIKED CAPACITY WITH AN EYE TO CHINA US resin packaging companies also added more than enough capacity to package that new resin in 55 lb bags for export, banking on demand from China and other major markets.

"This is highly disconcerting," said Marc Levine, CEO of Plantgistix, one of many packagers that added capacity at warehouses near the Houston Ship Channel.

"If US resin becomes 25% more costly in China, certainly this would have a significant negative impact on US contract packagers, including Plantgistix," he said. "Most of us primarily package plastic resin for export. We handle LDPE and LLDPE, and China by far has been our largest market."

The ACC's Dooley said the new and expanded infrastructure was predicated on current tariff schedules, and market shifts caused by tariff increases may convince investors to do business elsewhere.

"We strongly urge the US and China to reach a productive and meaningful agreement before any of the proposed tariff schedules go into effect," he said.

China's tariff targets also include polyvinyl chloride, which is used heavily in construction to make pipes, window frames and vinyl siding, and ethylene dichloride, which is a precursor to PVC.

PVC, EDC FACE DIFFERENT FORTUNES

The US exported 31% of its PVC capacity in 2017. Of that, 11% went to China, the second-largest recipient behind Canada. Antidumping duties already prevent US PVC from entering China's domestic market, so that product is re-exported into Southeast Asia, a US producer source said.

"That is all re-export business, so there's no effect" from potential tariffs, the source said.

However, EDC would be affected. China is by far the largest recipient of US EDC exports, having taken 27% of 1.3 million mt in 2017, according to US trade data. China received 25% less last year compared with 2016 because producers there are making more EDC domestically, using chlorine output from chlor-alkali plants run at high rates to capture strong caustic soda margins.

Another target on China's list is acrylonitrile, used to make synthetic fibers like nylon as well as synthetic rubber. The US exported 332,251 mt of ACN to China in 2017, 59.4% less than in 2016. China was the sixth-largest market for US ACN last year, behind South Korea, Mexico, Taiwan, Turkey and Peru, according to US trade data.

"This will definitely have an impact on ACN, especially right after implementation," a market source said Wednesday. "I would expect that with time, the export destinations will shift around as someone else supplies China and we move to a different country. The LDPE is big news, too, as we increase US PE production and needed exports to keep the market balanced."