

Identifying a Strategy to Succeed on the Global Petrochemical Market

KEY CONCLUSIONS

Demand for petrochemical products in the world will continue to grow at a faster pace

“If the global economy growth rate does not fall significantly below 3%, which is not in the predictions yet, we believe that the demand for petrochemistry in the foreseeable future will increase at the rate of 5.5% to 6.5% per year over the next 20 years,” Pavel Sorokin, Deputy Minister of Energy of the Russian Federation.

“Over the past 40 years, the industry [oil and gas chemistry] has seen steady growth at the rate that was significantly higher than the global GDP growth rate, and, according to industry experts, this trend will continue in the near future. The consensus forecast of industry experts is that the petrochemical industry will double by 2030. Today, it amounts to USD 4.5 trillion overall,” Mikhail Karisalov, Chairman of the Management Board, Chief Executive Officer, SIBUR.

Russian oil and gas chemistry is competitive and attractive for investors

“This is the industry where tremendous competences have been accumulated in the Russian Federation, and the industry is truly competitive in the international market. Over the past 10 years, very significant results have been achieved in terms of the capital investment efficiency, and in terms of the development of production capacity, in import substitution in the Russian market, in development and entering international markets,” Darya Borisova, Senior Partner, McKinsey & Company.

“A mechanism is being established to support and stimulate the development of the industry. The Russian petrochemical industry is becoming increasingly attractive for foreign investors, ourselves included,” Zou Wenzhi, Deputy Director General, Foreign Cooperation Office, China Petrochemical Corporation (Sinopec Group).

“Oil and gas chemistry is one of the most powerful drivers and has the greatest potential for growth. We estimate the increase in external supplies of at least USD 10 billion a year. Of course, it is necessary to consider the growing demand

in the domestic market,” Andrey Slepnev, Chief Executive Officer, Russian Export Centre.

Industry development stimulates regional economies and creates jobs

“Implementation of the project to build a chemical complex in the Ust-Kut district of the Irkutsk region is the government priority task that answers all challenges. 2,400 highly skilled jobs are to be created there. Plus, more than USD 1.3 billion a year will be generated from the operation of the project,” Sergey Donskoy, Member of the Board of Directors, Advisor to the General Director, Irkutsk Oil Company; Minister of Natural Resources and Environment of the Russian Federation (2012–2018).

PROBLEMS

Production capacity shortage

“We have relatively small production capacity. We now produce approximately 10 million tons in petrochemistry, most of it is consumed in the domestic market, and we import some things that are not on the list of what we produce. Exports amount to USD 3.2 billion. This number does not impress, especially compared to other fuel and energy economy sectors,” Pavel Sorokin, Deputy Minister of Energy of the Russian Federation.

Underdeveloped infrastructure

“Not enough attention is paid to construction and support in terms of building infrastructure <...> It is important for these clusters to get the necessary fitting for production, as well as to shape not only production areas, but clusters for development of the entire petrochemical industry, to shape the industry ecosystem,” Zou Wenzhi, Deputy Director General, Foreign Cooperation Office, China Petrochemical Corporation (Sinopec Group).

SOLUTIONS

Implementing new investment programmes and projects

“We currently have two plants in operation. We process 16 million tonnes of oil. In the near future, we are going to launch another plant with the capacity of 6 million tonnes. Our strategy is the development of oil and gas sector. <...> Since 1999, investments in new projects, in deepening, in processing amounted

to 1,300 billion roubles; 710 billion roubles in the past five years. <...> There are several plans for implementation of the new investment programmes. We are currently working with the Ministry of Finance of the Russian Federation, because large investment programmes require infrastructure support,” Rustam Minnikhanov, Head of the Republic of Tatarstan.

“Two hundred innovative projects in the chemical sector totaling over 1 trillion roubles are planned for implementation. Since the beginning of 2018, 10 projects have already been implemented. The volume of investments exceeded 2.8 billion roubles,” Viktor Evtukhov, State Secretary – Deputy Minister of Industry and Trade of the Russian Federation.

Creating attractive and stable environment for investors

“We are now working actively with the Ministry of Energy, the Ministry of Industry, the Government to develop support measures that need to be implemented. In the near future we expect the final decisions to be made on the tax regulation, the regime of processing LPG, ethane and other items. Without that, projects may not be implemented in time,” Andrey Slepnev, Chief Executive Officer, Russian Export Centre.

“At the Ministry of Energy, we have long called for – and we will continue to do so, and we see substantial support of our thesis – ensuring that the tax regulation does not deteriorate for capital-intensive industries with long investment cycle, such as petrochemicals, oil and gas, over the period of 10 to 15 years. Otherwise, nobody is going to invest in projects with a return of 12–14%, if there is a possibility, even a small chance, that in six or nine months the tax regulation changes. Unfortunately, this happened quite often in the past,” Pavel Sorokin, Deputy Minister of Energy of the Russian Federation.

Developing production clusters

“We <...> have identified three main priorities for the development of the chemical industry until 2030: cluster approach, departure from the model based on raw materials export, and chemicalization of domestic production,” Viktor Evtukhov, State Secretary – Deputy Minister of Industry and Trade of the Russian Federation.