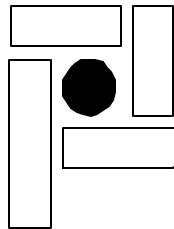

Ethylene Competitiveness

A New Global Multi-Client Service



THE PACE CONSULTANTS INC.

ETHYLENE COMPETITIVENESS REPORT

The world is poised to see huge change in the supply patterns for ethylene over the next decade. Until now, the production of ethylene and its derivatives has been focused in the United States and Western Europe, with the developing world acting as a sink for surplus output. Increasing self sufficiency in the Asian region and the massive build-up in export oriented capacity in the Middle East will cause dramatic changes in global supply patterns.

Of particular concern to producers is the impact that these new developments will have on the pricing of ethylene. With increasing volumes of derivatives flowing out of the Middle East, whose cash cost of production is dramatically lower than that of West European producers, there is clearly potential for a significant erosion in margins in the higher cost producing regions of the world.

Accompanying these changes has been a spate of mergers among ethylene and polyethylene producers. This has led to a marked shrinkage in the size of the merchant market for ethylene, with less than a third of U.S. ethylene now being sold on the merchant market. Of the remaining consumers, most are associated with the PVC chain, which is itself suffering from intense competition in international markets. The U.S. vinyls industry is heavily export oriented, and ethylene has to be priced at a level which will support export sales if these producers are to remain viable.

The net result of these factors—increased competition in world export markets, thinning of the merchant market for ethylene, and the need to support derivatives exports—has been a structural decline in merchant ethylene pricing, and posted ethylene prices have increasingly less relevance to market transactions. The impact of these changes is being seen already, exacerbated by depressed demand in the United States in particular.

In recognition of these factors, Pace has established the *Ethylene Competitiveness* report to examine the true cost of supply from the major exporting regions—the United States, Canada, and Western Europe—to the major world sinks for ethylene derivatives—Asia, and in recognition of future supply / demand changes, to Western Europe. Most of the ethylene deficit will move in the form of derivatives such as polyethylene and MEG, overcoming the high freight costs associated with shipment of ethylene. The Pace model analyzes the cost of supply to Western Europe and China from an integrated cracker complex producing ethylene and the major commodity products LLDPE and ethylene glycols.

From these models Pace presents a picture of the true value of ethylene in different world regions according to the market served. Monthly updates will provide an assessment of margins and regional competitiveness in light of movements in feedstock costs and regional pricing differentials for LLDPE and MEG.

The price of this report is **\$US3,500**. We believe this information will save you money and time as you plan your response to the challenges facing the industry today. To subscribe, E-mail us at inquiries@paceconsultants.com or complete the subscription form on the back of this page and fax it to us at: (832) 351-7887.

ABOUT PACE

Pace has served the petroleum, petrochemical, chemical, and natural gas industries since 1957 with supply/demand and pricing forecasts of energy and chemical products. Our approach to forecasting is based on extensive real world industry experience and contacts, supplemented by the use of sophisticated computer models. This combination permits simultaneous consideration of the many economic and technical factors and the impact of government regulations that influence product costs, supply imbalances, and market pricing. The result is an overall outlook where all the pertinent factors are presented on a consistent basis.



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PACE'S ETHYLENE COMPETITIVENESS REPORT

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We would like to receive **Ethylene Competitiveness Report**. We understand that the terms are as follows:

- The cost of the service is \$US3,500 per year. Payment is due upon execution and return of this agreement.
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- Pace will provide one User ID for this electronic service; additional User IDs will be provided for \$250 per User per year.
- The report is for the use of the purchasing company and its subsidiaries (51% or more owned). The purchasing company agrees not to republish Pace's information or analyses under any circumstances without express written approval from Pace. Any printed use or distribution to other companies of the material contained in the report(s), whether via electronic or printed means, requires prior written approval from The Pace Consultants Inc. (e-mail: inquiries@paceconsultants.com) and said material must be attributed in print not smaller than 10 points to "The Pace Consultants Inc, Ethylene Competitiveness Report."
- In accord with our regular practice, the identity of all purchasers will be kept confidential by Pace.

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