GLOBAL DOMINATION

EXCLUSIVE Henry Roth, CEO of US-Kuwait joint venture MEGlobal, says public-private partnerships can flourish in the Middle East

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GLOBAL DOMINATION

Much hype surrounded the ill-fated joint venture formally known as K-Dow last December. However, relatively little is known of the successful story which bridges the same challenges with ease. Dow Chemical Company and Kuwait Petrochemical Industries Company (PIC) have a successful joint venture company, MEGlobal, headquartered in Dubai’s airport freezone which confounds many of the criticisms levelled at such partnerships around seven months ago.

“MEGlobal is a very interesting company because it brings together in many ways some contradictory trends. If you look at our owners, you have Kuwait Petrochemical Industries Company (PIC) which is the petrochemical arm of the state owned Kuwait Petroleum Company (KPC) and you have, on the other hand, the Dow Chemical Company which obviously is a symbolic as it can get for western global private company,” says Roth.

“So having a free market bastion and a state company come together to form a joint venture company in number of fields, I think is quite remarkable, and it makes this business model an exceptional success story,” he adds.

Production
MEGlobal produces a range of intermediate products. “We produce one million metric tonnes of Mono Ethylene Glycol (MEG) and Diethyl Glycol and short Ethylene Glycol. These products are generally not very well known, but they are the most important building blocks for other products,” Roth explains. “The main usage of MEG is as a key raw material for the production of manmade fibers (such as the polyester industry), it is also a significant feedstock component for PET bottles, clothes and food and beverage packaging. Every aspect of modern life depends on ethylene glycol. The third most popular application of MEG is the use of anti-freeze which is not of big market in this region, but it is also used in cooling formulation systems and they are very important in this area of the world.”

All the production facilities of the company are located outside the region, mainly in Canada. “MEGlobal has a very interesting business model, we own plants and our production facilities are located in Alberta in Canada,” says the CEO.

The majority of MEGlobal production facilities are located in the central western region of Canada.
Henry Roth, president and CEO of MEGlobal.
MEGlobal is living, producing proof that a successful joint venture between a private US company and Kuwait’s state-run instruments is not only possible, but hugely profitable.

“Additionally we are the market maker of glycol that comes from other regional producers, such as EQUATE and Kuwait Olefins Company (TKOC) which are here in the Gulf. Also we can market the production of Dow Chemical Company in North America (Gulf of Mexico production), and we are linked partly through ownership to OPTMO Petrochemical which is a joint venture company in Malaysia where we also market a large portion of the MEG to the key Asian markets,” Roth explains.

The availability of the feedstock and its abundance remains the main challenge of the petrochemical producers due to the competition on gas from different industries.

“The recent trend of the petrochemical industry has been to concentrate production in the Arabian Gulf states, and that is based on the availability of feedstock ethane gas,” says Roth. “However the Middle East states are fast developing economies and also fast developing consumer societies, so there is a heavy competition between different industry sectors to secure sufficient gas allocations,” he explains.

Countries offering cheap feedstock prices are targets of MEGlobal. “The North African market is a good place for offering gas.

**Feedstock**

Ethane gas is the main feedstock used in MEGlobal plants. “The key feedstock for us is gas, normally ethane as it is the most economical feedstock,” says Roth. “But of course, any product which can be converted into ethylene would serve as a feedstock; it could be naphtha or heavy feed from a cracker,” Roth explains.

MEG prices since 2004

**SOURCE:** www.argaam.com
Algeria and Libya have an abundance of natural gas. I guess wherever a petrochemical industry forms, glycol will be part of the product mix,” he says. The different origins of its owner represent a challenge of the company. “The challenge was to prove that the business model of different oriented parents could come and work together, that could create a company of different history and make it successful enterprise,” says Roth.

“I believe we have given proof of that because we are one of the dominant producer suppliers in the world. Obviously, to operate profitably is always a challenge and specifically since the end of 2008 where the global recession and the global economic downturn, it is of course hard for us to remain profitable,” he reveals.

Prices
Middle East producers are well known to have the lowest production costs in the world. The cost of MEG production is around $200 per tonne for companies like SABIC. Feedstock naturally determines the cost of production. “Whether you are sitting above the oil well (the hydrocarbon well) or whether you import part of your hydrocarbon molecules, one of the reason of the rapid expansion of the downstream sector in the region is the tremendous cost advantage,” Roth explains.

MEG prices reached historical highs in 2007 and early 2008 due to the shut down of SABIC’s production unit. The shortage of supply pushed prices higher as SABIC represents a significant portion of MEG production worldwide.

“We tried to optimise the conditions as much as we could but of course you can’t sell more than what you have, and we would have wished to take better opportunity with maximum utilisation of all our production capacity,” Roth says. “I think we did well in the most part of 2007 and 2008 and now we are obviously in the down cycle where prices have sunk deeply.”

The current price of MEG seems to be unattractive for the company as the CEO says that he would be happy for a price between $900 and $1000 per tonne. “If I look at creating value in the downstream value chain, I think a price around $900-$1000 per tonne is a fair price to ensure convenient supply,” Roth says. “This would be the price that makes me very comfortable every day, but unfortunately the reality of the market price today is completely different and we are at half that price level.”

MEG prices have sunk deeply to around $420 per tonne in November 2008 and are currently trading at around $650 per tonne.

The collapse of the K-Dow joint venture has not hampered MEGlobal operations as both partners remain committed to their joint venture company. “There has certainly been no negative impact on MEGlobal in the run-up to, or since the stop to K-Dow’s formation. Both our parent companies have always and continue to co-operate well to enable business success for MEGlobal,” Roth says.

The CEO is clear in his views as MEGlobal remains a beacon of success between Kuwait and Dow, and he says it is beyond his remit to analyse that situation further.

“It is really up to PIC and Dow to comment on their relationship and respective issues. From the view point of MEGlobal it is questionable whether the term “dispute” is even appropriate. Both our parents remain committed to enhance their cooperation,” he concludes.