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**SITUATION AND PROSPECTS
FOR THE MIDDLE EAST NITROGEN INDUSTRY**

by

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Situation and Prospects for the Middle East Nitrogen Industry

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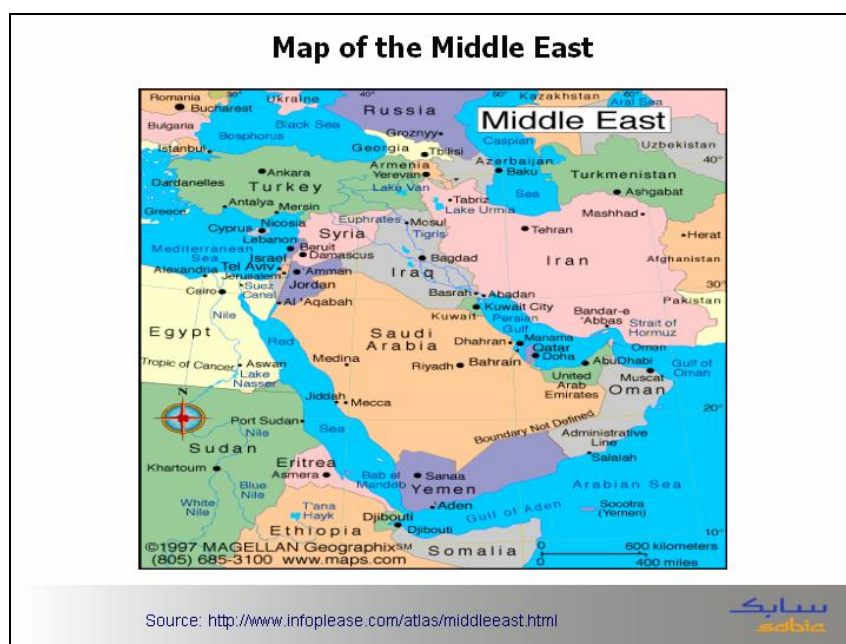
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On behalf of SABIC, I am pleased to address this distinguished international conference under the auspices of the International Fertilizer Industry Association (IFA). My presentation covers the following topics:

- Evolution of the urea international business
- Global urea supply capability: trend and outlook
- Update on the Middle East nitrogen capacity
- Overview of Middle East share in the ammonia and urea trade
- Future prospects of the Middle East nitrogen industry
- Concluding remarks

The nitrogen industry in the Middle East has grown tremendously over the past three decades, and has become a focus of international attention through the fertilizer industry media and earlier conferences. This presentation will highlight the recent developments and outlook of the nitrogen industry in the Middle East, particularly with reference to urea and to some extent ammonia.

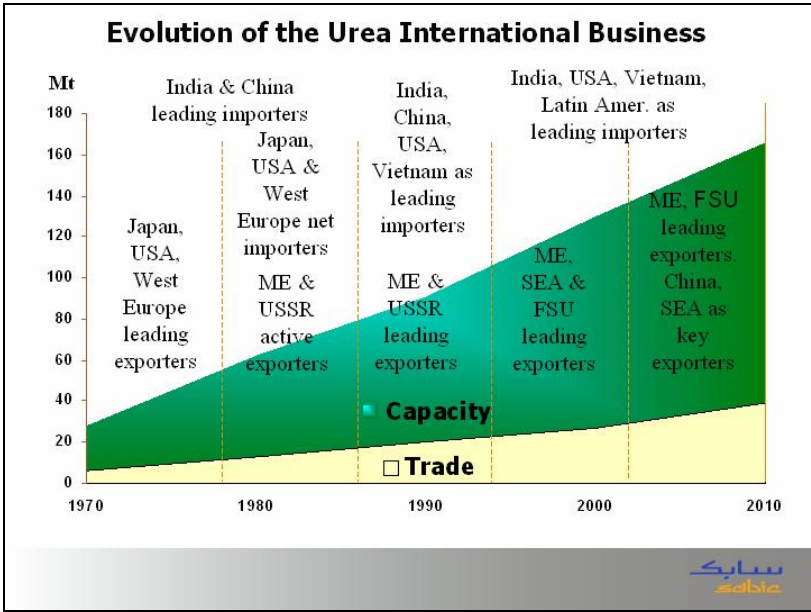
Middle East, as discussed here, covers the nitrogen producing countries of the Gulf Cooperation Council, such as Saudi Arabia, Qatar, Kuwait, United Arab Emirates, Bahrain and Oman as well as Iran, Iraq, and Syria.



In the foreseeable future, we expect the Middle East to sustain its new role as the world’s leading urea exporting region as a group to become the leaders in the global nitrogen business. FSU producers will remain very important but they will no longer be the leaders in the medium to long term. North American and West European producers will continue restructuring their industries due to economic considerations. In view of rising demand for nitrogen fertilizers worldwide, the current and future nitrogen projects in the Middle East will be needed as a natural path to the growth and stability of the international nitrogen industry.

As known quite well, nitrogen has been the leading fertilizer nutrient being consumed in the world, and this is expected to continue in the years to come. In the Middle East, nitrogen -- notably with reference to ammonia and urea -- dominates the fertilizer industry.

In order to understand the situation and prospects of the Middle East nitrogen industry, it is important to revisit the evolution of the global urea business in terms of the underlying major historical developments and outlook.



From 1960 through 1970 Japan and West Europe were the leading urea exporters. At the same time, India and China – the world's two largest urea producing and consuming countries to-date – stood as the main urea importers.

During the period 1970-1980, the Middle East and the Former Soviet Union (FSU) became active on the urea export front. In this period, Japan and West Europe started losing their competitiveness and profitable position. On the demand side, India and China remained the world's main urea importers.

In the following decade 1980-1990, Indonesia also started becoming an active urea supplier on the international front. This period was a milestone, as it witnessed Japan, West Europe and USA becoming net importers of urea. At the same time, Vietnam, Thailand, Philippines had joined India and China as important urea importing countries.

In the ensuing period of 1990-2000 many traditional producers in Europe and North America closed uneconomical production units. In recent years, natural gas costs in these regions have become comparatively very expensive. Affected nitrogen producers, therefore, have to continue rationalizing their fertilizer plants by virtue of economic considerations.

During the 1990s the world had also witnessed the political and economic changes in the former Soviet Union (FSU), which had a direct impact on the world nitrogen market. Several producers in the FSU resorted to rationalization measures, like revamping of high-cost obsolete plants. With the rationalization measures in the FSU, they have managed to sustain their top position on the export front for years until now.

In recent years, the role of China as a major urea importer has diminished significantly by virtue of its import substitution and industrialization policies. For instance, in 1995 and 1996, an average 6.6 million tonnes (Mt) of urea per year was imported into the country. In 1998 and 1999 the country imported less than 100 thousand tonnes (Kt) a year. In 2000 and 2001 China did not import any quantity of urea, and exported an average 1.1 Mt a year. In 2003 China exported a record 2.73 Mt of urea. If this trend continues, the country will no doubt be among the leading urea exporters.

What is not certain at this stage is whether the Chinese will again become active on the import front in the years to come.

During the current period through the year 2010 there will be important changes in the competitive position and supply capabilities of the major players. For instance, the Middle East has already overtaken the FSU as the world's leading urea exporting region.

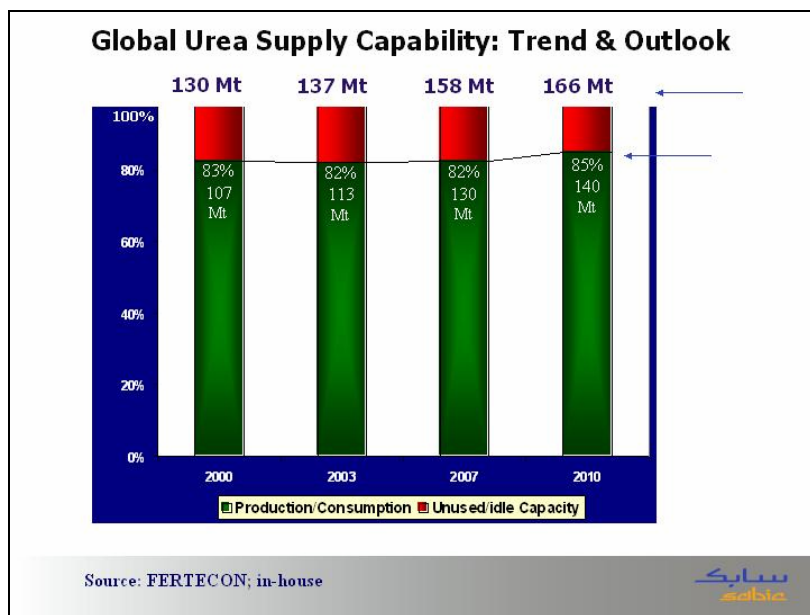
Nitrogen fertilizer supply increased marginally in 2003. However, strong demand in the key consuming regions of Asia, Latin America, North America and Africa and production shortfalls in major producing and exporting countries have led to a strong recovery in ammonia and urea trade last year and this year.

Tight supply and demand conditions prevailed during most of 2004, exacerbated by high natural gas prices in the United States. High gas costs in the US have compelled producers there to cut nitrogen capacity and resort to imports as a competitive source of ammonia and urea. This has made international nitrogen trade quite favorable last year and this year.

In 2003 world ammonia capacity stood at about 159 Mt -- a great stride from the 1995 level of 145 Mt in nominal term. This 14 Mt increase over a period of eight years reflects only 1.2% capacity growth per year. Total world ammonia capacity will increase to 174 Mt in 2007, and by the year 2010, it will exceed the 180 Mt mark, assuming that firm projects will go ahead as planned. The capacity forecast for 2010 reflects only 1.8% capacity growth per year.

The growth in ammonia capacity reflects those located within major fertilizer consuming areas to feed anticipated increases in demand for fertilizer but also consists of sizeable expansions in export-orientated capacity in response to the improvements in world prices for fertilizer and intermediates during the mid 1990s.

As for urea, total world capacity stood at about 137 Mt in 2003 – also reflecting significant rise of around 4% from 1995 level of 102 Mt. Total world urea capacity will increase to 158 Mt in 2007, and by the year 2010, it will reach about 166 Mt or an average growth of 3% per year over 2003, if firm projects will push through as planned.



The total urea capacity in the Middle East today is around 11 Mt per year. This includes 2.7 Mt in Qatar, 2.7 Mt in Saudi Arabia, 1.7 Mt in Iraq, 1.6 Mt in Iran, 1.2 Mt in Kuwait, 650 Kt in the United Arab Emirates, 560 Kt in Bahrain and 345 Kt in Syria. Current urea production in Iraq and Syria caters to their domestic markets at present, supplemented by some imports.

Qatar’s 2.7 Mt annual capacity includes QAFCO 4 with an annual urea capacity of 1.07 Mt granular urea capacity and 50 Kt of surplus ammonia. QAFCO 4 started up in April 2004 and is now producing at full capacity. QAFCO 5, with 1.1 Mt of granular urea capacity/year, is under study and planned for start-up in 2010. By then, QAFCO shall have a total capacity of about 3.8 Mt per year.

Country/ Company/ Plant	Product	Capacity Kt Product	Status	Date
Qatar				
QAFCO/QAFCO4	NH3	610	Operational	2004
QAFCO 5	Urea	1,100	Operational	2004
	NH3	1,100	Plan	2010
	Urea	1,100	Plan	2010
Saudi Arabia				
SABIC/SAFCO 4	NH3	1,100	UCT	2006
	Urea	1,100	UCT	2006
SABIC	NH3	1,100	Under Study	2010
	Urea	1,100	Under Study	2010
UAE/Dubai				
SPIC	NH3	230	UCT	2006
	Urea	400	UCT	2006

Source: FERTECON; IFA; in-house; etc.


In Saudi Arabia SAFCO IV is now under construction and will be on stream in 2006. When SAFCO IV comes on stream in 2006, SABIC's total urea capacity will be about 3.8 Mt per year. By 2010, this will increase to about 5.0 Mt per year if SABIC will decide to pursue another world-scale nitrogen complex, like that of SAFCO IV.

National Petrochemical Company (NPC) owns three prilled urea plants in Iran with 1.6 Mt of annual capacity -- 600 Kt in Razi, 500 Kt in Shiraz and 500 Kt in Khorasan. NPC's 1.07MMT/year granular urea plant (Assaluyeh 1) will come on stream by year-end or in the first quarter of 2005. Shortly, therefore, Iran will have a total urea capacity of 2.7 Mt. Iran's KPIC is now constructing a 660 Kt per year urea plant, along with 396 KMT/year ammonia plant at Kermansha, which is expected to be on stream in 2005. Iran's NPC 1.07MMT/year urea plant (Assaluyeh 2) is planned for 2008, along with 680 KMT/year ammonia plant. An unconfirmed press report discloses that NPC is likewise planning for another ammonia/urea complex at Shiraz, with the same size and timing as that of Assuliyeh 2.

In Oman, two mega projects are underway. OMIFCO will have 1.66 Mt/year urea plant, along with 1.2 Mt/year ammonia plant in 2005. SIUCI-Bahwan Group is planning 1.16 Mt per year urea project, along with 660 KMT/year ammonia plant to be on stream possibly in 2008. OMIFCO and SIUCI-Bahwan UREA projects are export-oriented and these companies aim to place most of their urea output to India.

Update on the Middle East Nitrogen Capacity, 2004-2010				
Country/ Company/ Plant	Product	Capacity Kt Product	Status	Date
Oman				
Omifco	NH3	1,200	UCT	2005
	Urea	1,660	UCT	2005
Sohar/SIUCI	NH3	660	Delayed	2006 08(?)
	Urea	1,160	Delayed	2006 08(?)
Iran				
NPC-Assaluyeh1	NH3	680	UCT	End04/1Q05
NPC-Assaluyeh1	Urea	1,070	UCT	End04/1Q05
NPC-Assaluyeh2	NH3	680	PLAN	2008
NPC-Assaluyeh2	Urea	1,070	PLAN	2008
KPIC-Kermansha	NH3	396	UCT	2005/06
KPIC-Kermansha	Urea	660	UCT	2005/06
NPC-Razi III	NH3	680	UCT	2005
NPC-Shiraz	NH3	680	PLAN	2007/08(?)
NPC-Shiraz	Urea	1,070	PLAN	2007/08(?)

Source: FERTECON; IFA; in-house; etc.



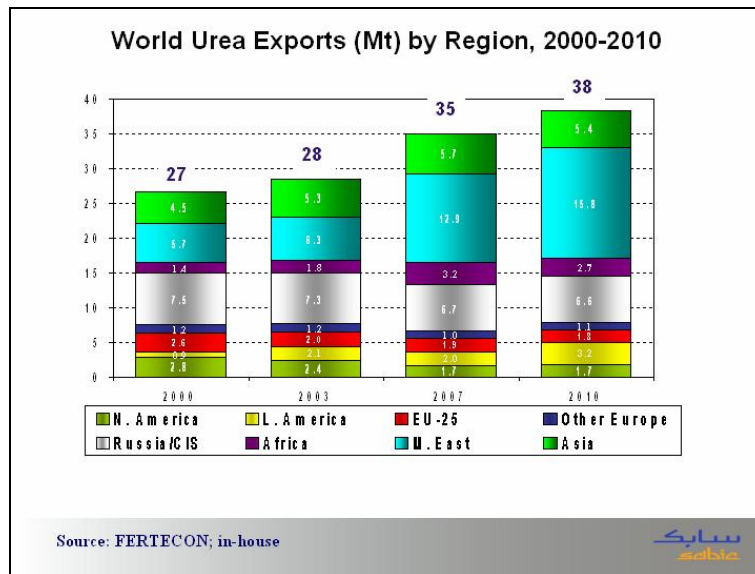
Thus, the period 2005-2010 will further see the coming of several new nitrogen plants. The total urea capacity in the region will likely reach 17 Mt in 2007 and will exceed 21 Mt in 2010, if planned projects are completed as planned.

International ammonia trade currently stands at around 17 Mt, representing only about 13 percent of world ammonia output (134 Mt). Overall world trade for ammonia is expected to reach around 20 Mt in 2007, up by 3 Mt from 2003. By 2010 trade is expected to reach 21 Mt. This will reflect an annual growth of 3.1 percent.

In 2003 Middle East ammonia exports accounted for around 8.4 percent of the world export supply, i.e. over 1.0 Mt of the total 13.6 Mt of ammonia trade. As of today, Middle East is the third major source of inter-regional supply of merchant ammonia, after FSU and Latin America. It is expected that by the year 2007 the Middle East will increase its share to 13 percent, i.e. 2.2 Mt of the total 17.2 Mt of projected ammonia trade.

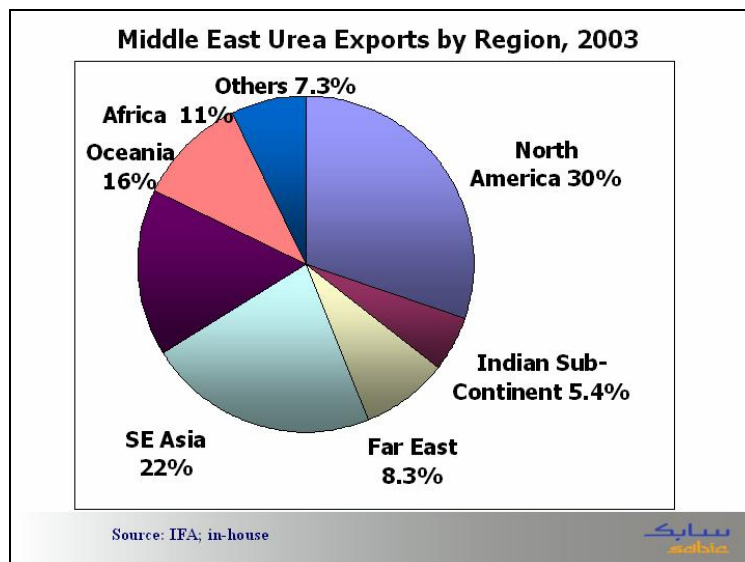
As for urea, international trade volume reached around 28 Mt in 2003, accounting for about 25 percent of world urea output (112 Mt).

Overall world trade for urea is expected to reach around 35 Mt in 2007, up by 7 Mt from 2003. By 2010 trade is expected to reach 38.5 Mt. This will reflect an annual growth of 4.7 percent.



Urea exports from the Middle East were about 6 Mt in 2003, around 22 percent of the international trade volume.

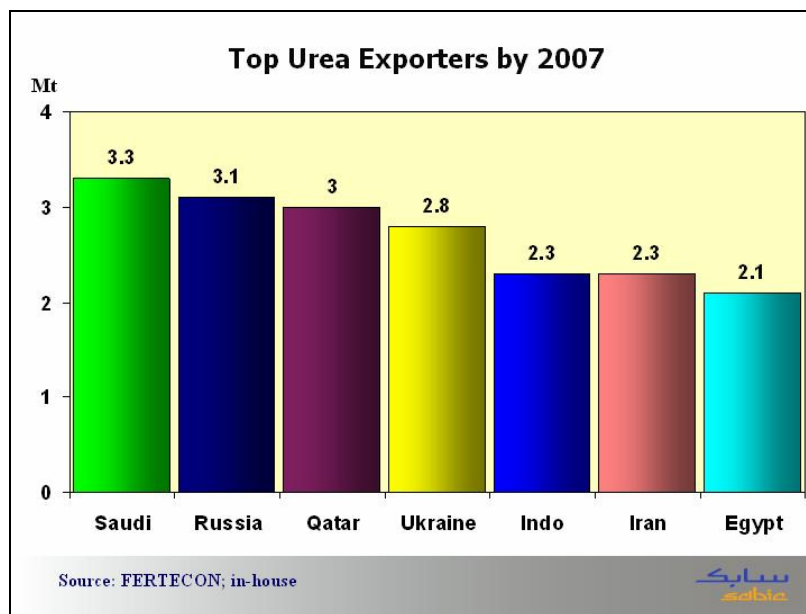
On the average, North America accounts for 30 percent of Middle East urea exports; followed by Southeast Asia, 22 percent; Oceania, 16 percent; Africa, 11 percent; Far East, 8.3 percent; and the rest to Indian subcontinent and elsewhere.



Through the year 2010 we expect the global market for ammonia and urea to witness the following:

- International trade in ammonia and urea will grow in response to capacity closures in the USA, Europe and elsewhere.
- Asian demand for ammonia and urea will grow as industries rationalize in India, China and the Far East, and as food requirements increase in line with population growth.
- With stricter environmental regulations, along with rising energy costs, in North America, West Europe and elsewhere, these regions will have to resort to plant closures. Outsourcing from overseas for their nitrogen requirements will mean greater international trade volume.
- Expected expansion of demand for ammonia and urea for industrial and other applications will have positive impact on international nitrogen trade.
- Ammonia and urea will replace some of nitrogen products which will be affected by environmental restrictions and cost competitiveness.

As international trade volume grows, total Middle East exports may exceed 10 Mt in 2007, when new projects come on-stream. Saudi Arabia will not only be the largest urea exporter in the region, but will overtake Russia as the world's largest urea exporter. Qatar will also increase its ranking from being the fifth to third largest urea exporter after Saudi Arabia and Russia.



The future prospects are bright for the Middle East nitrogen industry considering the following:

- The Middle East region has abundant and competitive hydrocarbon resources.
- The location advantage of the Middle East at a strategic mid point between the East and the West.
- The Middle East nitrogen industry enjoys excellent and modern infrastructure.
- The nitrogen industry in several important consuming countries depends on gas that is limited in supply and where the underlying competition is strong.
- The United States and West Europe will continue to rationalize their nitrogen plants due to high raw material costs.

- Gas supplies in the FSU and Central Europe will have better added value in other economic sectors.
- Middle East gas-based nitrogen plants are much more competitive than those plants that depend on naphtha and coal.

In conclusion, urea and ammonia producers in the Middle East have enjoyed greater competitive advantages than other regional suppliers to the international market. Even when prices are low, most urea capacity in the region will continue to be operated at high utilization rates.

In contrast, nitrogen capacity in other regions like North America will have to be curtailed as and when international urea prices weaken significantly. We believe that the rationalization and structural changes in North America, Europe and elsewhere will continue in the foreseeable future. As high-cost producers continue resorting to plant closures, either temporarily or permanently, it is natural that competitive producers in the Middle East will have to continue to fill in the demand-supply gap, and hence promote international market stability and growth.