



South & South East Asia Urea Trade

Frances Wollmer
Argus FMB, UK



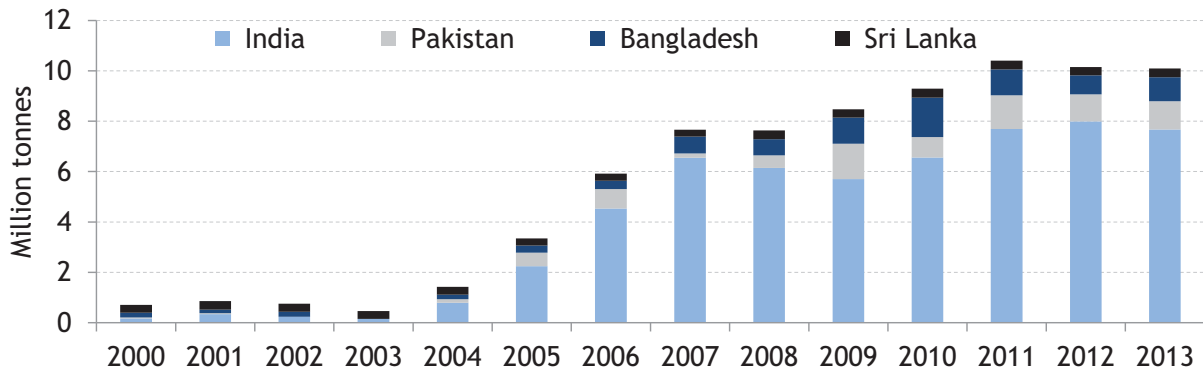
The S & SE Asia Global Trade Position, 2013

- 14.6 mn tonnes urea imports or 1/3 of total trade - 44.8 mn tonnes (*IFA*). Includes up to 2.0 mn t OMIFCO tied tonnage
- 2.3 million tonnes urea exports
- 1 million tonnes of intra-regional trade

Market Diversity

- Non-homogeneous markets e.g. Thailand granular where blends important; Vietnam mix of urea in blends and for NPKs (as melt, compaction); Indonesia straight N applications for padi; Indonesia and Malaysia growth in demand for urea in high-K NPKs in palm oil.
- Differing degrees of government control but all see urea as strategic commodity.

South Asian Imports



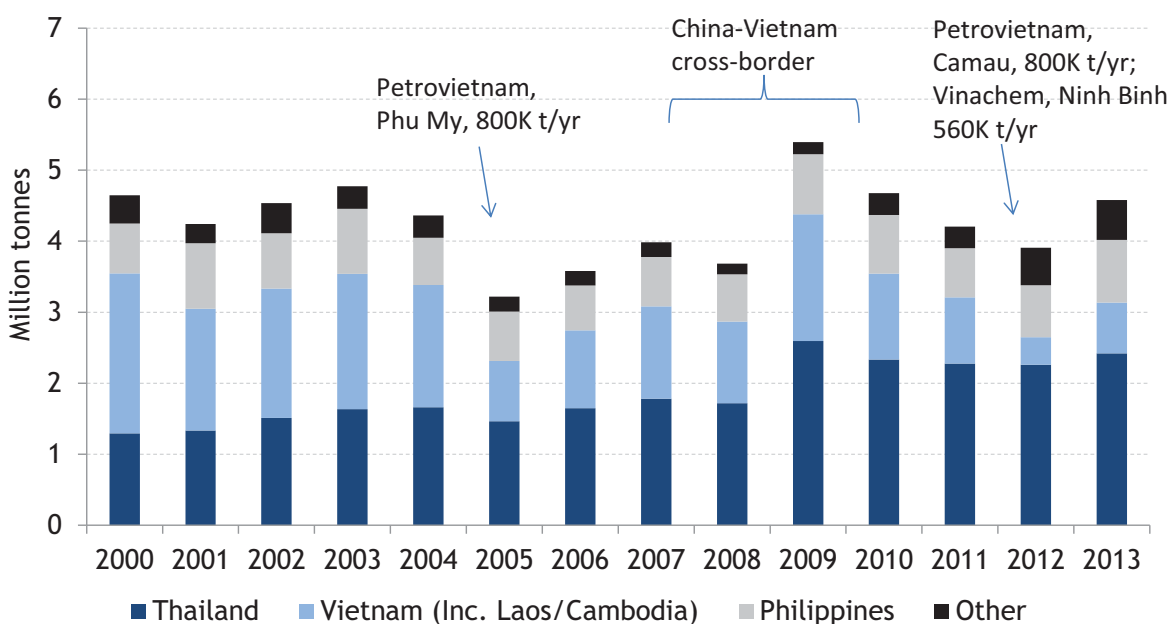
Source: IFA

- India - 15yr 14.5 million t/yr import substitution programme ends in 2000. Thereafter, only 1.6 million t/yr *effective* capacity added through revamp activity.
- Since 2009/10 gas feedstock restrictions impacting on both Pakistan and Bangladesh

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South East Asian Imports

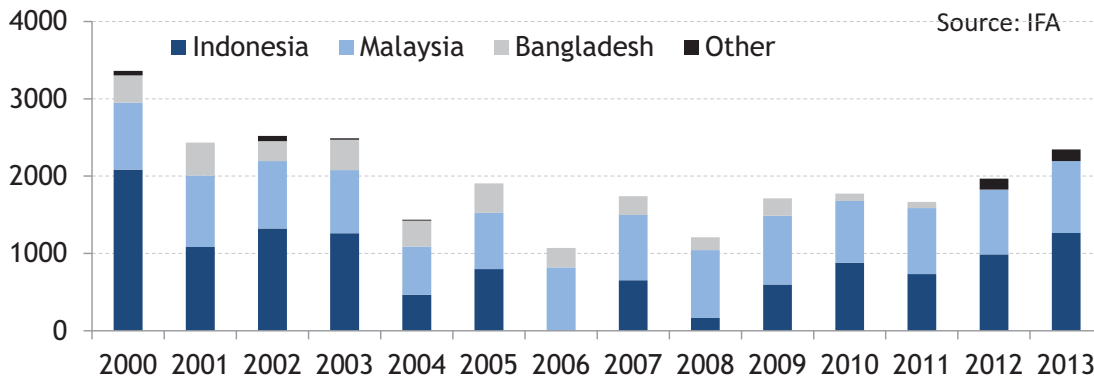


Source: IFA; Argus FMB

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S & SE Asian Urea Exports



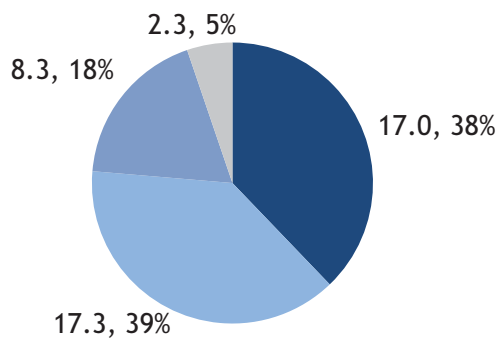
- Malaysia c.800-900K t/yr
- Indonesia: re-emergence after collapse. Long-term LNG contracts expiring with gas diverted to urea production (LNG exports 2006 = 31.5 mn tonnes; 2013 22.4 mn tonnes [BP Statistical Review])
- Bangladesh: growth in demand and lack of gas has removed KAFCO tonnage from the international market.

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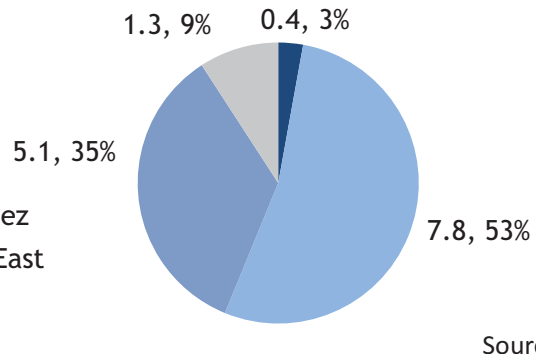


Global versus S & SE Asia Urea Import Pattern, 2013 (mn tonnes)

World Total = 44.8



S & SE Asia Total = 14.6



Source: IFA

Note:

- Little tonnage moves to S & SE Asia from W.Suez - but the region will feel the indirect effect of geopolitical crisis in Ukraine with exports down from 2.5-3.6 mn t/yr
- Middle East total exports 17.3 mn tonnes of which 5.4 to W.Suez
- Indonesia exports 0.4 mn t to Americas

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Future S & SE Asia Trade: Key Issues

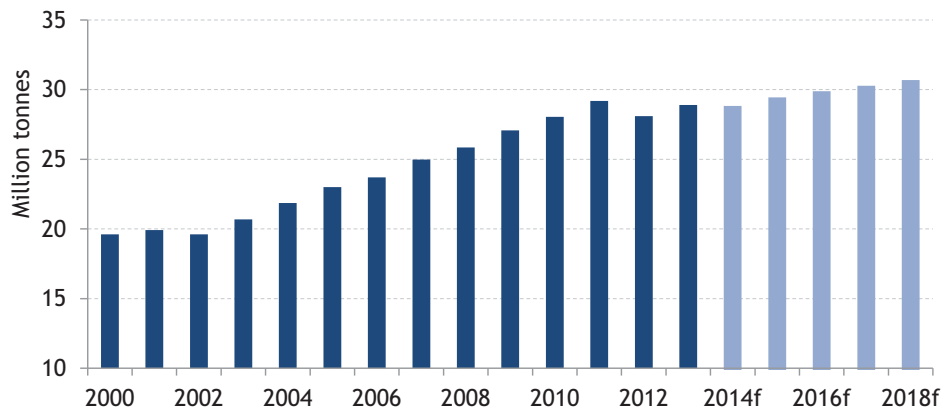
- Nitrogen Fertilizer Demand
- Projects underway
- India policy
- Operation of existing capacity in Pakistan and Bangladesh
- The US Shale Gas-Middle East-China interconnection

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Key Issues: Nitrogen Fertilizer Demand

S & SE Asian Nitrogen Fertilizer Demand



Source: Historical - IFA; Forecast - 'Argus FMB Strategy Report: World Urea Outlook to 2028'

- Mostly mature market for nitrogen fertilizers (fastest relative growth potential Myanmar, Cambodia, Laos)
- Move to more balanced fertilization in India?
- 2012/13-2018 Nitrogen fertilizer demand growth 2.2 mn tonnes N \equiv 4 x world-scale urea units

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Key Issues: Projects

Firm Projects (million t/yr)

Country	Plant/site	Capacity	Net Impact	Start-up/Notes
India	Matix, Panagarh, W. Bengal	1.3	?	Mechanical completion mid-2014 awaiting CBM feedstock
Indonesia	Kaltim V, Bontang (Replaces Kaltim 1)	1.2	0.6	2014
Malaysia	Petronas, Sabah	1.3	1.3	2015/2016
Indonesia	Pusri IIB, Palembang (replaces Pusri II)	0.9	0.5	2016 (coal to supply energy)

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Potential Projects

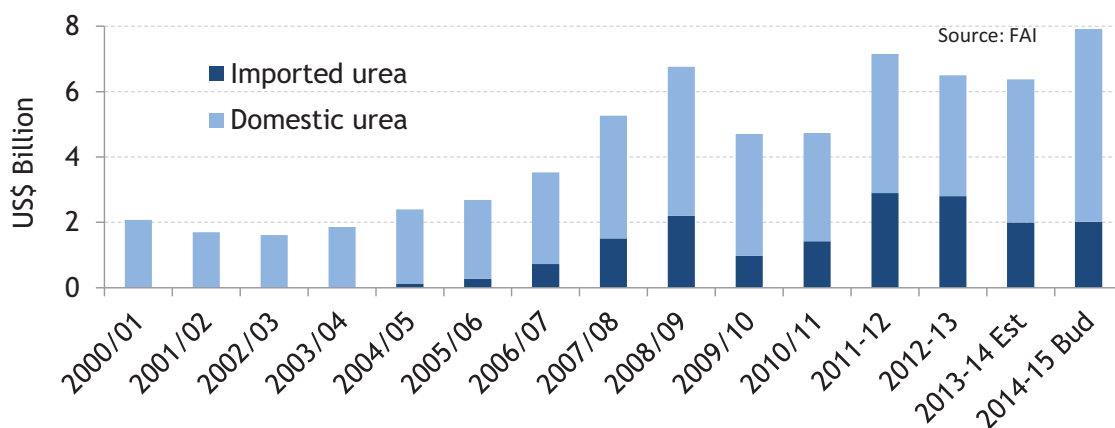
- Indonesia: Gresik; Sulawesi (various)
- Resurrection of Myanmar Yadana gas-based project floated in 1990s
- Brunei
- Russian Far East: National Chemical Group 2.6 mn t/yr urea Kozmino (nr Vostochny port) site announced October 2014

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Key Issues: India Policy

India Urea Subsidy Bill



- Maximum Retail Price Rs 5,360/t excl. VAT/local taxes. = US\$88/t versus current import price > US\$300/t. 10% increase 2015?
- Urea, unless in NPKs, remains outside of the NBS (for now). 2014/15 Rs/kg 20.874 \equiv US\$152/t urea

India Production Subsidies

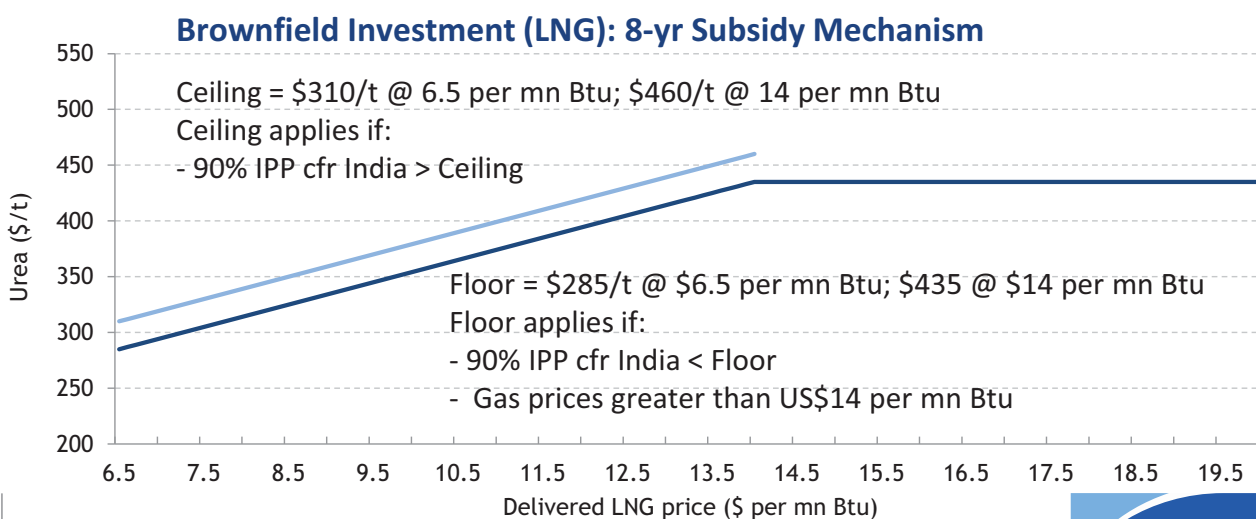
- NPS: Production Cost less MRP for domestic urea production (23.2 million tonnes 2013 [IFA])
- Cost of naphtha US\$20-23 per mn Btu. Announced withdrawal of subsidy on naphtha-based plants June 30 2014. MFL, MCFL, SPIC (1.2 million tonnes production [FAI]) US\$50 million conversion but gas supply/infrastructure not yet available. Reopened to Sep 30th, currently closed.
- Well-head price increased October 2014 from US\$4.2 per mn Btu to US\$5.6 (previous target was doubling). Delivered NG price to increase from US\$6-6.6 to estimated US\$7.5-8 per mn Btu.

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New Urea Investment Policy (NIP)

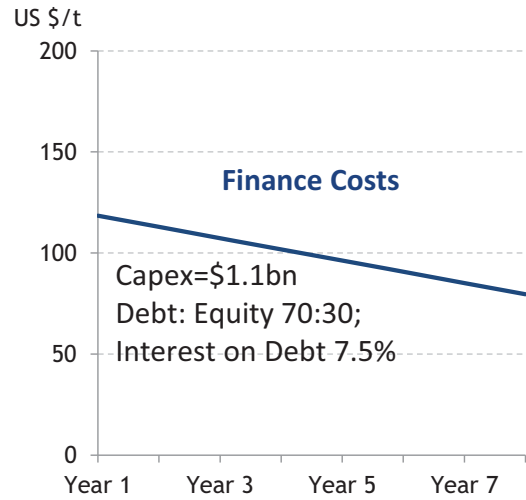
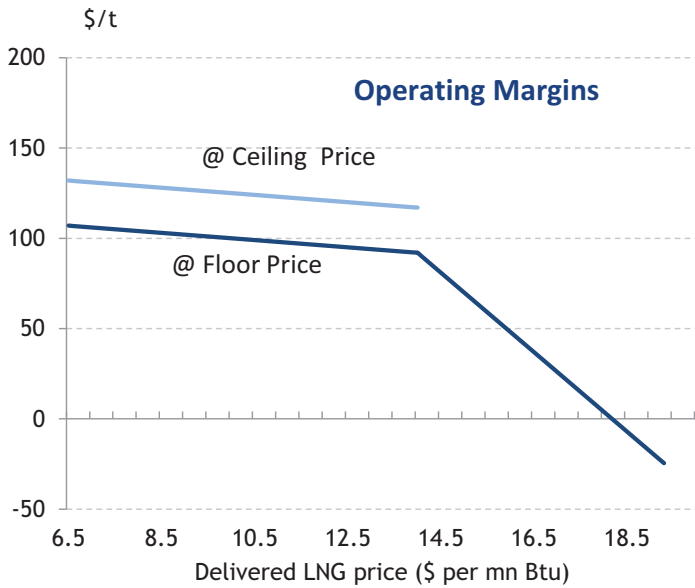
- Introduced December 2012 (UPA). 13 players responded with bids. October 2014 (NDA) - modification to determine genuine interest, private bidders would have to submit c.US\$50 mn bank guarantee.



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The NIP: 1.3 million t/yr Brownfield LNG-Based Urea Unit



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Indian LNG Average Import Price (mostly oil-linked)



- Add 5% import duty (for fertilizer use) plus US\$2.5-3.5 per mn Btu for regasification costs, local taxes, transmission costs.
- Brent oil six months average ending Jan 2011 US\$82/bbl; Saudi indication US\$80/bbl the new target floor.

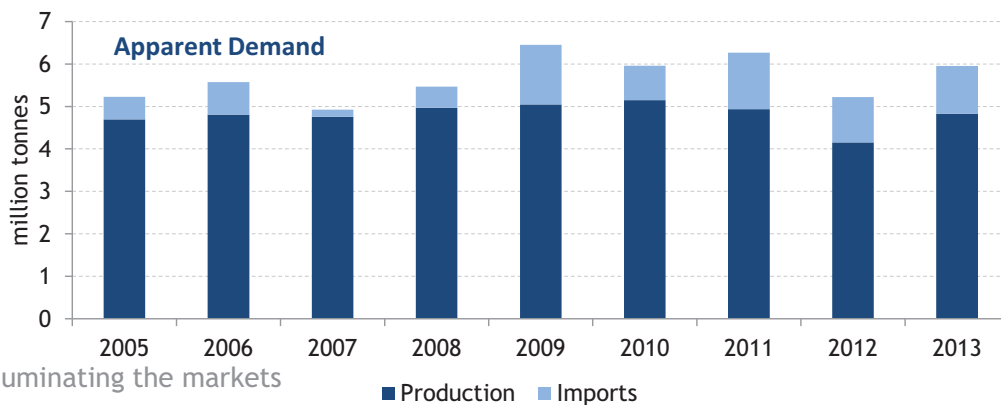
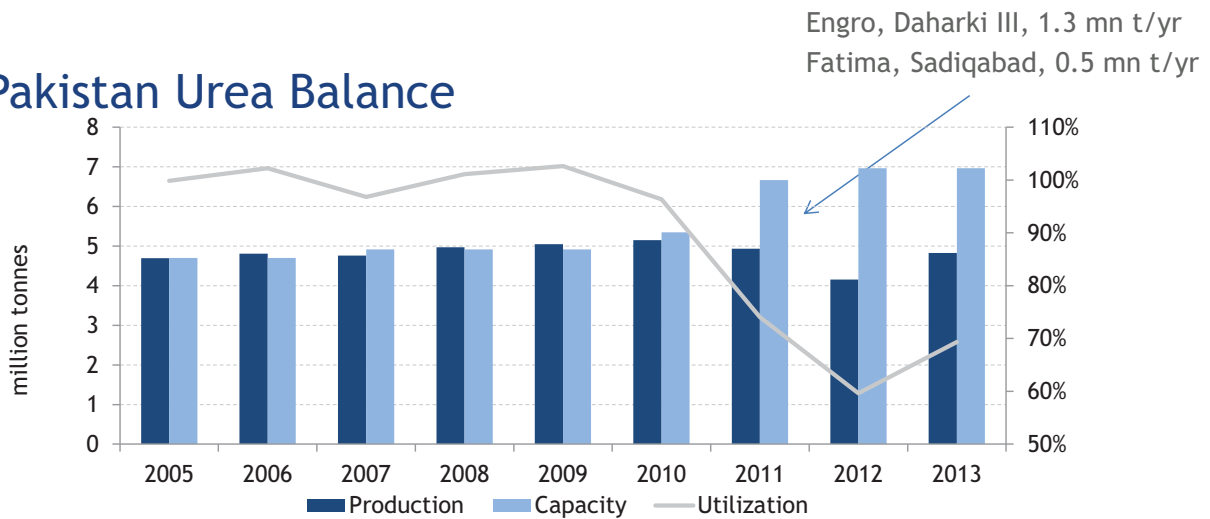
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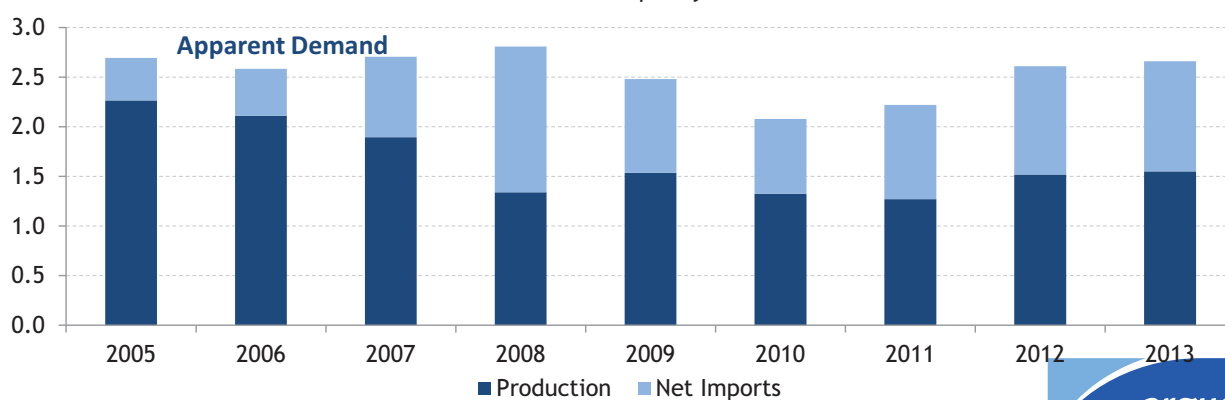
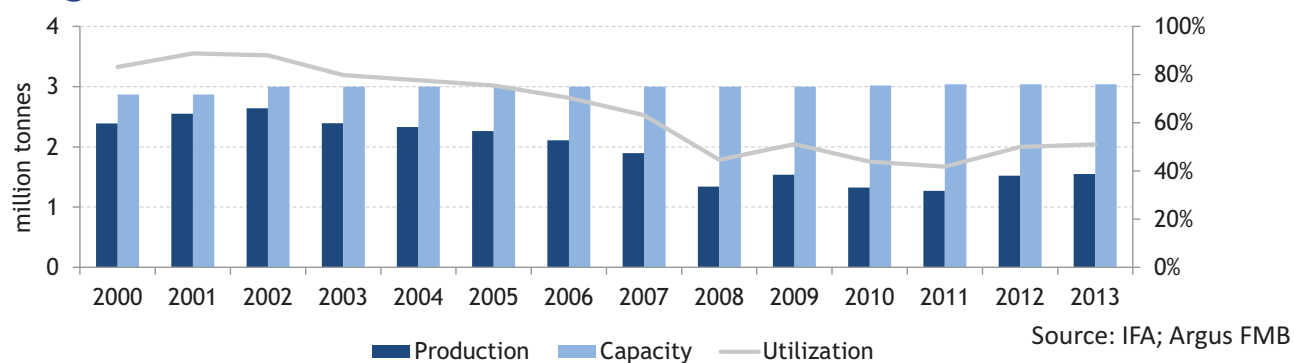
Key Issues: Pakistan & Bangladesh Feedstock Crunch

Pakistan Urea Balance



Source: IFA; Argus FMB

Bangladesh Urea Balance



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Pakistan & Bangladesh Feedstock

Pakistan

- Domestic gas situation could improve with higher tariffs (urea producers receive low price gas feedstock to keep domestic prices low).
- Iran-Pakistan gas pipeline stalled; LNG discussed
- New gas exploration in Sindh Province?

Bangladesh

- Coal feedstock under consideration (KAFCO II proposal based on indigenous coal [mid-2014])

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Key Issues: The US Shale Gas-Middle East-China Interconnection

The US Shale Gas- Middle East-China Interconnection

- US: c.5.0 mn t/yr of new *granular* urea capacity 2015-2019. Imports will decline and exports increase
- The Middle East will be forced out of the Americas (4 mn t exports 2013) and back into freight-logical South Asian market
- But requires a significant retreat by China

China

- 11 large-scale projects completions in 2014 although many more have been proposed/postponed plus 7 existing units recently closed by SINOPEC
- Urea export duties. 2015 flat rate?
- 3-year decline in anthracite/coal prices to mid-2014. October 2014 re- imposition of import duties (3-6%) and reform of resource taxes (2-10% depending on Province)→ feedstock cost increase
- China Five-Year Plan 2016-2021, environment a likely priority
- Credit crunch?

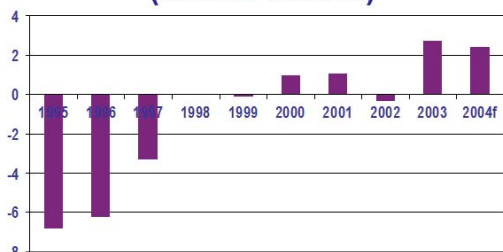
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China - back to the future ? (with a bit of editing)

IFA PIT Dubai, 2004: 'Global Urea Trade'

China: Net Urea Exports, 1995-04
(million tonnes)



Source: IFA, FCC estimates
f: FCC forecast

FCC FERTILIZER & CHEMICAL
Consultancy Limited

An FMB joint venture

China Urea Outlook, 2004-13

New Urea Capacity to 2008 (4.5-? million t/a)

But

Export Competitiveness:

- Why export energy? China is a high cost urea producer

- Renminbi:US Dollar peg

Rising Domestic Demand:

- New ag. policies (2004), ABC decline

China will remain a volatile factor in the short-term, but gradual move to net exports

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Conclusions

Conclusions

Base scenario:

- Growth in S & SE Asia net imports but at a much slower rate than in the last decade
- A major shift in pattern of trade

But points to watch:

- Oil prices and the NIP
- China (as always)

Frances Wollmer

Principal Consultant - Fertilizers

Email: frances.wollmer@argusmedia.com

Argus House, 175 St John Street, LONDON, EC1V 4LW, UK

Tel: + 44 (0)20 7199 0229

Sources: Argus FMB Strategy Reports (Urea & NPKs); Argus FMB Cost Service; Argus FMB Weekly Reports; IFA; GTIS.

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