

Canada Petrochemicals Report Q1 2012

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Abstracts

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Despite the more difficult operating environment in 2012, BMI's latest Canada Petrochemicals Report states that the economy approached its full potential in 2011 and with capacity utilisation being eaten up, and corporate cash and profits still headed higher, there will be increased incentive to invest. Added to these factors are government tax breaks intended to spur investment, and the potential for yet further cuts in the corporate tax rate.

Nova Chemicals diversification of ethane supplies should secure Canadian chemicals and petrochemicals output over the next decade. Increased US production of natural gas and lower prices have decreased the volumes of natural gas and reduced ethane availability in Canada, but Nova believes the situation should improve after 2012 as it secures its feedstock supply position. This should be facilitated by the 45,000b/d ethane pipeline planned to link gas supplies in the US state of North Dakota to Canada's Alberta province, which is expected to start up in Q312. This will be accompanied by off-gas supplies at Williams' oil sands facilities at Fort McMurray and Redwater that will feed Nova's Joffre complex, and an ethane pipeline linking the US's Marcellus Shale gas output to an upgraded cracker at Sarnia, ON by end-2013.

Improved ethane supplies are spurring downstream development with Nova studying the construction of two new PE plants to be located at Joffre and Sarnia with a decision expected in mid-2012. The company was also studying a further debottleneck of its LDPE line at Mooretown, ON. Nova is planning to expand the Corunna cracker at Sarnia and increase utilisation at the Joffre cracker in order to support the expansion of PE. The start-up of the debottleneck project and polymer expansions is targeted between late 2014 and 2017, but without further details of capacities or schedules at the time of writing, BMI has not built these into its forecast. However, we anticipate an

increase in ethylene capacity of around 250,000tpa with the potential for up to 400,000-500,000tpa of extra PE capacity.

There are, however, headwinds to domestic consumption, including interest rate hikes, inflation reducing disposable income, and the potential for house price moderation or even a downturn. But the underlying fundamentals are still positive, with the labour market improving and, accordingly, real wages beginning to grow more robustly. The most significant risk would be a significant slowdown in the US, which could severely undermine Canadian business confidence, commodity prices and exports, adversely affecting exports of petrochemicals and manufactured goods.

Canada's position in BMI's Americas Petrochemicals Business Environment Ranking remains at second place this year, with its score increasing 1.1 point to 77.7 points due to an improvement in its country risk. This puts it comfortably 15.1 points ahead of Brazil and 8.4 points behind the US.

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