

## Methanol: time to plan ahead and develop new ideas

In Q1/2020, methanol exports from Russia grew by over 50.000 tons compared to previous years. However, this April, producers were under pressure to reduce output due to shrinking local and international demand. CREON experts interviewed major market players on how the COVID-19 epidemic is affecting the industry and on their outlook for new methanol projects.

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Over the past 10 years the Russian methanol market has grown significantly; producers have doubled capacity to 4.7 mln tons per year by 2019 (2.35 mln tons in 2009). Most plants continued production during the period of self-isolation, thereby increasing the export volume in the first quarter of 2020 by over 50.000 tons compared to the same period in previous years. In March, experts interviewed by CREON group recorded an increase in shipments of MeOH to 214.000 tons, but in April the volume of railway deliveries fell by 22%.

In mid-April, Armen Garslyan, head of Russia's largest methanol producer Metafrax, estimated in an interview to Perm TV that the methanol sales drop at 40%, and the decline in derivatives sales at 60%. "This is not like the financial crisis 2008. We work with our customers under totally different conditions. Our supplies are being paid for in installments or sometimes payments are delayed indefinitely. We do not want to cut production, so we act according to situation."

However, restrictions on methanol storage did not allow Russian companies to keep up production by increasing inventories. So Russian producers had to reduce the commercial output of methanol in April. Supplies to the domestic market decreased by 36% to 85.800 tons, while export fell by 14% to 184.400 tons. The experts believe that it is too early to sum up the impact of the pandemic: "The consequences of COVID-19 for the methanol industry will become evident in 6 to 8 months," said a production company executive.

Back in early March, MMSA predicted lower prices on the global methanol market at below €180 by the 2nd quarter. Compared to the beginning of the year, methanol prices in Europe fell by 35%. So, as of mid-May, a ton of product has been trading for € 140-141 (FOB Rotterdam).

In the Central Federal District of Russia, the average price for commercial methanol varies in the range of 14.500 to 22.000 rubles per ton (about €180 to €280), including VAT. The weaker ruble exchange rate has helped enterprises, mitigating losses. "The situation is not good at the time: nobody ships methanol, inventories are full, plants in Europe have stopped production. Even year-long contracts do not help. When the final consumer refuses to purchase the product, it is affecting the whole supply chain," says an industry insider.

### Consequences for methanol derivatives

Consequences of COVID-19 are more severe for methanol derivative producers. The manufacturers of formaldehyde resins and MTBE reduced consumption of MeOH by more than 40% in April. "End-users refuse resins, urea, formalin. In April, the shipment was supposed to go to Holland via the Baltics, but the client cancelled the deal, so the cargo is still there," said the market expert of the largest Russian chemical producer. "The furniture industry is suffering greatly: there are no markets to sell, retail shops are closed down. Supply chain network has been broken," the representative of wood processing enterprise confirmed.

Meanwhile, paraformaldehyde producers are noting higher demand: "Our product is intended for disinfection in agriculture and sales have even grown now. We also sell paraformaldehyde to varnish and paints producers, for refining as a bulk-forming substance, and for reagents manufacturers that produce chemicals for absorption of hydrogen sulfide. We were not affected by the pandemic crisis," says one of the market players.

“Overall, the global methanol market is staying afloat, but we don’t expect quick positive outlooks,” said Wolfgang Seuser, managing director Europe at MMSA. The “viral storm” will soon subside, and the methanol industry will prove again its stability and adaptability to the imbalance of supply and demand. “After a difficult period, when prices fall all over the world to the extreme, a recovery will surely happen. The global economy is growing in a U-shape: at first it will slow down methanol consumption, but after this summer we are expecting a quick recovery,” says Seuser.

The representative of the German chemical company also believes that the market will return to normal in the foreseeable future. “Now we are in a restrained mood, but all enterprises in Europe have a high pent-up demand,” said the expert.

The fall in world oil prices, coupled with restrictive measures in many countries, have affected the global economy. Nevertheless, the majority of methanol industry participants surveyed by the CREON group are optimistic and say that they have been keeping all existing plans to launch new production facilities. “We have invested in the methanol project. The plant has been under construction for the fourth year now, and I don’t know what should happen for it to be canceled,” says the investment director of a large company.

“New projects have large-capacity specifics, the cycle of their implementation takes several years. In this regard, their viability is influenced not by market fluctuations, but by fundamental trends. And these trends are in favor of methanol,” said **Sandzhar Turgunov**, CEO of CREON Energy.

“In a crisis, companies rather increase business activities, as it was in 2008 and in 2014. New horizons are emerging as the crisis is the time to review development plans and to look for new directions,” said a leading international technologies supplier for refining and petrochemical industries.

The methanol market will be discussed in detail at the ‘Methanol 2020’ Conference in Moscow, October 30<sup>th</sup> ([Program and registration](#)).