

27 October 2020

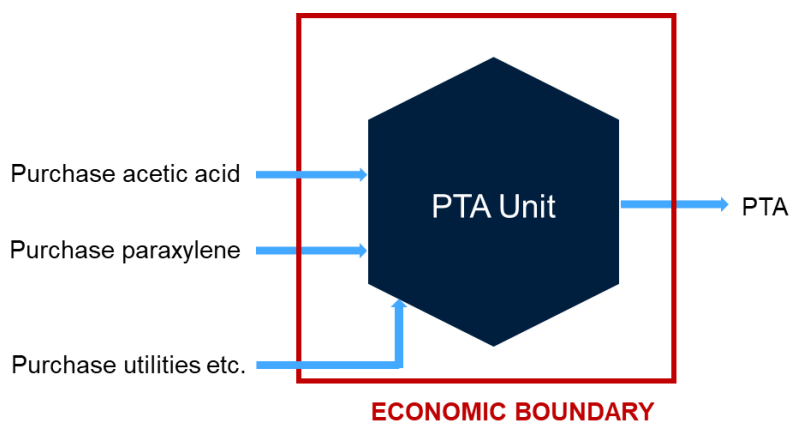
# Variable Margin Methodology: PTA Europe



## THE BUSINESS MODEL

ICIS calculate margins for Purified Terephthalic Acid (PTA). This product is made from paraxylene and acetic acid. Paraxylene is produced at refineries and crackers, and ultimately comes from crude oil.

The diagram below shows the production process for PTA. Paraxylene and acetic acid are reacted together to produce PTA.



## THE MARGIN CALCULATION

- The margin measure provides an assessment of the ex-works cash margin obtained for the product over raw material costs, credit for selling co-products, and key variable manufacturing costs, including power and steam, catalysts and chemicals. This measure can also be termed as a variable margin, contribution or benefit.
- This margin measure provides simple signals on the direction of business margins as dictated by the environment, thus informing market positioning by sellers, buyers and traders.
- ICIS does not model beyond raw material costs, credit for selling co-products and key variable manufacturing costs. Further analysis would cease to be generic to the industry and would be highly specific to individual business operations, their site structure, location, ownership and financial structures. Such detail would not fairly reflect or be applicable in a wider industry context. It may also be more subjective, open to fair challenges and not feasible to reference in commercial discussions.
- ICIS models plant operations for a series of 'representative' plants around the world. These representative plants have no flexibility with respect to feedstock or process configuration and ICIS assumes the plants to be purchasing inputs and selling outputs at constant prices. In northwest Europe, representative plants are modelled as if they are located in Antwerp.



- As the process model is generic and not based on any individual operation, the contribution measure is indicative. Instead of absolute value terms, it is most valuable as an index and in step-change terms.
- ICIS plant manufacturing and feedstock yield assumptions incorporate data from Intratec ([www.intratec.us](http://www.intratec.us)), an independent provider of chemical production cost reports.
- Ex-works product price assessments link to ICIS pricing quotations for large-volume commodity products, with netbacks assessed using the ICIS petrochemicals logistics model. To estimate representative transport costs, the ICIS logistics model considers a network with nodes at individual production sites connected by streets and ports linking each continent. The logistics model incorporates shipping data from Xeneta ([www.xeneta.com](http://www.xeneta.com)), and duties data from SimplyDuty ([www.simplyduty.com](http://www.simplyduty.com)).

The calculation below shows how ICIS derives the PTA margin in northwest Europe. The example is based on contract sales prices, is denominated in US dollars per tonne, and uses average prices for the year 2017.

#### PTA margin (\$/tonne)

PTA contract price	754
Adjustments incl. logistics costs/netbacks	(1)
PTA product value	753
Co-product sales	0
<u>Total income</u>	<u>753</u>
Purchase of feedstocks (paraxylene, acetic acid etc)	607
Utilities	75
<u>Variable costs</u>	<u>682</u>

**PTA margin**

**753 – 682 = 71**

#### MODEL YIELD PATTERN AND CALCULATION

Plant manufacturing data relates to the variable cost components of chemical unit operations. Yield pattern data relates to the overall material balance of the PTA unit. For example, for one tonne of PTA produced, 0.6 - 0.7 tonnes of paraxylene is required,

Intratec provides the plant manufacturing and feedstock yield data used in the model.



- This analysis demonstrates business volatility and the influence of price floors (as an uneconomic margin generally forces supply reductions).

## ASSESSMENT INPUTS

The following pricing inputs are used to generate the full content of the ICIS PTA Europe margins:

### NORTH WEST EUROPE

- Paraxylene in Europe Contract FD NWE (ICIS pricing, Contract Price Assessment, Monthly) (€/tonne)
- Acetic Acid in Europe Contract FD NWE (ICIS pricing, Full Market Range, Monthly) (€/tonne)
- PTA in Europe Contract FD NWE (ICIS pricing, Contract Price Assessment, Monthly) (€/tonne)

The methodology associated with each ICIS pricing individual pricing quotation referenced above is available on the [ICIS Compliance and Methodology](#) website.

In addition to the listed ICIS pricing inputs, the model also takes into account logistics costs (calculated through the ICIS logistics model), and utility costs.

A key objective of the calculation procedure is to provide a weekly summary that strongly aligns to the reported market price positions on the date of publication.

Where inputs are unavailable for individual weeks, e.g. due to public holidays, prior-week data is carried forward to the current week. This is for the specific purpose of populating the model and preventing model inconsistency. This form of data interpolation infers some limited data points that may not be market derived, and customers should be aware of this assumption.

### PTA EUROPE WEBPAGE

Filter data on the website using the following criteria.

- **Location:** Select northwest Europe
- **Process:** Select process.
- **Price terms:** ICIS generates PTA variable margins only for contract price terms in Europe.

Variable margins data are available online from January 2014 onwards. Six months trailing data shows as default.

The website deploys the following data, all per tonne of PTA.



- **Main product value, ex-works:** the estimated PTA netback value for the producer, taking into account the ICIS assessed price, shipping costs, handling costs and applicable duties.
- **Co-product credits:** the revenues from the other products generated in a process, also ex-works. This data is also available broken down into co-product types.
- **Feedstock and utility costs:** or total variable input costs for a process. This data is also available broken down into the component feedstock costs and utility costs.

Calculated outputs are:

- **Variable cost** = [Feedstock and utility costs] – [Co-product credits]
- **Variable margin** = [Main product value] + [Co-product credits] – [Feedstock and utility costs]

A selected variable margin (i.e. a margin for a specific location, process and price term) is comparable with margins of different process technologies in the same region, and with margins using the same technology in different regions. Subscribers can review margin performance by week, month, quarterly and per annum. Subscribers can view the flows of different products, in terms of their volume and value, into and out of the representative production unit used to calculate the polystyrene variable margin.

## PUBLISHING FREQUENCY

The ICIS Weekly Margin – PTA Europe model is based on the latest data at the close of business in Europe on Friday and released to customers on the following Monday subject to schedule planning. When the Monday is a public holiday in the UK, margins will be made available the following day. ICIS does not publish an update on some public holidays.

Holiday dates and days of publication may be subject to revision.