

OMAN

Muscat moves downstream

The unexpected opening of a downstream plastics manufacturing facility in the Salalah free zone marks the start of a new phase in the region's petrochemicals industry

ED JAMES

Petrochemicals projects in the Middle East run a predictable course. A developer announces its intention to build a plant, gets state backing and then announces its partners and the construction contracts. It then celebrates its completion when the facility is commissioned a couple of years later.

So it was a jolt to the industry when, seemingly out of nowhere, Octal Holding announced in late 2006 the opening of its integrated polyethylene terephthalate (PET) resin and amorphous polyethylene terephthalate (APET) sheet manufacturing plant in the southern Omani port city of Salalah.

The project was such a closely guarded secret that even potential customers knew little about it. Largely hidden from view in the hills of the Salalah free zone, it stayed out of the spotlight during the three years of its development. That changed when the plant came on stream – and its capacity is increasing month by month. By late September 2007 it had added 10,000 t/y of sheet capacity to the existing 20,000 t/y.

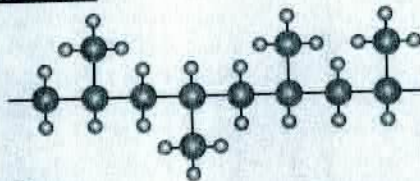
The venture is the idea of Chemlink Capital, a US investment and project development group. Together with another US investment company, Pound Capital, Chemlink started identifying downstream opportunities in the Gulf in 2002.

Global market

From an initial investment of \$3m, the two companies drew up requirements. "Base commodity chemicals were not for us," says Nicholas Barakat, managing director of Octal Holding. "What we were looking for were investments with market traction. We looked at packaging and we started with styrenics. But it soon became clear the world had moved on to polyesters."

Once the product was determined, the companies sought investment partners and a suitable location. The choice of the remote Salalah location was a surprise to observers. While Oman, like many Gulf states, is keen to attract labour-intensive downstream industries, the more obvious choice would have been the northern city of Sohar, which has a track record of good manufacturing infrastructure.

KEY FACT



\$7bn

Value of Oman's biggest planned petrochemicals project at Duqm. A feasibility study is under way

Source: MEED projects

But for Octal, which became the first occupant of the Salalah free zone, the southern sultanate city provides a better rationale. "It has an excellent port, the most efficient in the region, and logistics are very important for a business such as ours," says Barakat. "There was a choice piece of land and permits were easy to come by. And, of course, it is outside the Strait of Hormuz [considered geopolitically secure and in turn carrying a low insurance premium for shipping]."

The choice of Oman against other Gulf states is more obvious. It is one of only two states – the other being Bahrain – to have a free trade agreement with the US. The infrastructure is good and its location on the main east-west shipping lanes is ideal for both importing raw materials and exporting the end-product.

There is also a wealth of potential local investors and funding sources. The National Investment Fund Company (Nifco), Muscat Overseas, Oman Investment Company, Malatani Trading & Contracting, Oman & Emirates Investment Holding, Suhail Bahwan Group, Dhofar International Development & Investment Company (Didic) and BankMuscat have all invested in the \$300m scheme, with the latter, together with Bank Dhofar, extending more than \$166m in project financing.

Nonetheless, the scheme has still bucked a trend by being located in the region. The Gulf has traditionally focused on base chemical

production because of the absence of a local market. As Barakat admits: "If you are chasing demand, you go to China."

Octal is relying on the size of its facility and product quality to win customers. Covering 135,000 square metres, the plant has a capacity of 30,000 tonnes a year (t/y), set to increase to 300,000 t/y by the summer of 2008. This will make it five times larger than any other APET producer, and the largest PET producer in the region, accounting for 20 per cent of APET sheet production, in a \$2bn-plus global business.

Competitive advantage

The hike in global capacity means something will have to give, most obviously pricing. But Barakat says the fact the resin and final product production are integrated gives it a cost advantage over its competitors.

"There is a growing need for APET sheet – the industry is growing by 10-12 per cent a year, as manufacturers abandon PVC [polyvinyl chloride], styrenic polymers for APET, which has a better clarity, gloss and mechanical toughness," says Barakat.

Octal also claims that with improved software and gauge controls, thermoformer raw material costs are reduced and productivity is increased. Moreover, the final product is more precise, with less than a 1 per cent variation in the thickness of the sheet, allowing packaging manufacturers to ascertain more precisely how many trays they can produce per tonne.

Whether customers agree will only become clear in the coming years. But the Octal experience offers hope for those who are trying to encourage downstream investment in the Gulf.

The key factor, as with all these things, is timing, which comes back to why Octal only announced its existence once the plant was up and running. "We only announced now because it is only now that we are in the market," says Barakat. "And it is a market with a growing need."

It is also a market that has been caught unawares by such a project – and that could be a key factor in its success. ☐