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ARGUS GLOBAL POLYVINYL CHLORIDE

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The most up-to-date Argus Global Polyvinyl Chloride methodology is available on
www.argusmedia.com

Methodology overview

Methodology rationale

Argus strives to construct methodologies that reflect the way the market trades. Argus aims to produce price assessments which are reliable and representative indicators of commodity market values and are free from distortion. As a result, the specific currencies, volume units, locations and other particulars of an assessment are determined by industry conventions.

In the global polyvinyl chloride markets, Argus publishes physical market prices in the open market as laid out in the specifications and methodology guide. Argus uses the trading period deemed by Argus to be most appropriate, in consultation with industry, to capture market liquidity.

In order to be included in the assessment process, deals must meet the minimum volume, delivery, timing and specification requirements in our methodology. In illiquid markets, and in other cases where deemed appropriate, Argus assesses the range within which product could have traded by applying a strict process outlined later in this methodology.

Survey process

Argus price assessments are informed by information received from a wide cross section of market participants, including producers, consumers and intermediaries. Argus reporters engage with the industry by proactively polling participants for market data. Argus will contact and accept market data from all credible market sources including front and back office of market participants and brokers. Argus will also receive market data from electronic trading platforms and directly from the back offices of market participants. Argus will accept market data by telephone, instant messenger, email or other means.

Argus encourages all sources of market data to submit all market data to which they are a party that fall within the Argus stated methodological criteria for the relevant assessment. Argus encourages all sources of market data to submit transaction data from back office functions.

Throughout all markets, Argus is constantly seeking to increase the number of companies willing to provide market data. Reporters are mentored and held accountable for expanding their pool of contacts. The number of entities providing market data can vary significantly from day to day based on market conditions.

For certain price assessments identified by local management, if more than 50pc of the market data involved in arriving at a price assessment is sourced from a single party the supervising editor will engage in an analysis of the market data with the primary reporter to ensure that the quality and integrity of the assessment has not been affected.

Market data usage

In each market, Argus uses the methodological approach deemed to be the most reliable and representative for that market. Argus will utilise various types of market data in its methodologies, to include:

- Transactions
- Bids and offers
- Other market information, to include spread values between grades, locations, timings, and many other data.

In many markets, the relevant methodology will assign a relatively higher importance to transactions over bids and offers, and a relatively higher importance to bids and offers over other market information. Certain markets however will exist for which such a hierarchy would produce unreliable and non-representative price assessments, and so the methodology must assign a different relative importance in order to ensure the quality and integrity of the price assessment. And even in markets for which the hierarchy normally applies, certain market situations will at times emerge for which the strict hierarchy would produce non-representative prices, requiring Argus to adapt in order to publish representative prices.

Verification of transaction data

Reporters carefully analyse all data submitted to the price assessment process. These data include transactions, bids, offers, volumes, counterparties, specifications and any other information that contributes materially to the determination of price. This high level of care described applies regardless of the methodology employed. Specific to transactions, bids, and offers, reporters seek to verify the price, the volume, the specifications, location basis, and counterparty. In some transactional average methodologies, reporters also examine the full array of transactions to match counterparties and arrive at a list of unique transactions. In some transactional average methodologies, full details of the transactions verified are published electronically and are accessible by subscribers. The deals are also published in the daily report.

Several tests are applied by reporters in all markets to transactional data to determine if they should be subjected to further scrutiny. If a transaction has been identified as failing such a test, it will receive further scrutiny. For assessments used to settle derivatives and for many other assessments, Argus has established internal procedures that involve escalation of inquiry within the source's company and escalating review within Argus management. Should this process determine that a transaction should be excluded from the price assessment process, the supervising editor will initiate approval and, if necessary, documentation procedures.

Primary tests applied by reporters

- Transactions not transacted at arms length, including deals between related parties or affiliates.
- Transaction prices that deviate significantly from the mean of all transactions submitted for that day.
- Transaction prices that fall outside of the generally observed lows and highs that operated throughout the trading day.
- Transactions that are suspected to be a leg of another transaction or in some way contingent on an unknown transaction.
- Single deal volumes that significantly exceed the typical transaction volume for that market.
- Transaction details that are identified by other market participants as being for any reason potentially anomalous and perceived by Argus to be as such.

- Transaction details that are reported by one counterparty differently than the other counterparty.
- Any transaction details that appear to the reporter to be illogical or to stray from the norms of trading behaviour. This could include but is not limited to divergent specifications, unusual delivery location and counterparties not typically seen.
- Transactions that involve the same counterparties, the same price and delivery dates are checked to see that they are separate deals and not one deal duplicated in Argus records.

Secondary tests applied by editors for transactions identified for further scrutiny

Transaction tests

- The impact of linkage of the deal to possible other transactions such as contingent legs, exchanges, options, swaps, or other derivative instruments. This will include a review of transactions in markets that the reporter may not be covering.
- The nature of disagreement between counterparties on transactional details.
- The possibility that a deal is directly linked to an offsetting transaction that is not publicly known, for example a “wash trade” which has the purpose of influencing the published price.
- The impact of non-market factors on price or volume, including distressed delivery, credit issues, scheduling issues, demurrage, or containment.

Source tests

- The credibility of the explanation provided for the outlying nature of the transaction.
- The track record of the source. Sources will be deemed more credible if they:
 - Regularly provide transaction data with few errors.
 - Provide data by Argus’ established deadline.
 - Quickly respond to queries from Argus reporters.
 - Have staff designated to respond to such queries.
- How close the information receipt is to the deadline for information, and the impact of that proximity on the validation process.

Assessment guidelines

When insufficient, inadequate, or no transaction information exists, or when Argus concludes that a transaction-based methodology will not produce representative prices, Argus reporters will make an assessment of market value by applying intelligent judgment based on a broad array of factual market information. Reporters must use a high degree of care in gathering and validating all market data used in determining price assessments, a degree of care equal to that applying to gathering and validating transactions. The information used to form an assessment could include deals done, bids, offers, tenders, spread trades, exchange trades, fundamental supply and demand information and other inputs.

The assessment process employing judgment is rigorous, replicable, and uses widely accepted valuation metrics. These valuation metrics mirror the process used by physical commodity traders

to internally assess value prior to entering the market with a bid or offer. Applying these valuation metrics along with sound judgment significantly narrows the band within which a commodity can be assessed, and greatly increases the accuracy and consistency of the price series. The application of judgment is conducted jointly with the supervising editor, in order to be sure that guidelines below are being followed. Valuation metrics include the following:

Relative value transactions

Frequently transactions occur which instead of being an outright purchase or sale of a single commodity, are instead exchanges of commodities. Such transactions allow reporters to value less liquid markets against more liquid ones and establish a strong basis for the exercise of judgment.

- Exchange one commodity for a different commodity in the same market at a negotiated value.
- Exchange delivery dates for the same commodity at a negotiated value.
- Exchange a commodity in one location for the same commodity at another location at a negotiated value.

Bids and offers

If a sufficient number of bids and offers populate the market, then in most cases the highest bid and the lowest offer can be assumed to define the boundaries between which a deal could be transacted.

Comparative metrics

- The relative values between compared commodities are readily discussed in the market and can be discovered through dialogue with market participants. These discussions are the precursor to negotiation and conclusion of transactions.
- Comparison to the same commodity in another market centre.
- Comparison to a more actively traded but slightly different specification commodity in the same market centre.
- Comparison to the same commodity traded for a different delivery timing.
- Comparison to the commodity’s primary feedstock or primary derived product(s).
- Comparison to trade in the same commodity but in a different modality (as in barge versus oceangoing vessel) or in a different total volume (as in full cargo load versus partial cargo load).

Volume minimums and transaction data thresholds

Argus typically does not establish thresholds strictly on the basis of a count of transactions, as this could lead to unreliable and non-representative assessments and because of the varying transportation infrastructure found in all commodity markets. Instead, minimum volumes are typically established which may apply to each transaction accepted, to the aggregate of transactions, to transactions which set a low or high assessment or to other volumetrically relevant parameters.

For price assessments used to settle derivatives, Argus will seek to establish minimum transaction data thresholds and when no such threshold can be established Argus will explain the reasons. These

thresholds will often reflect the minimum volumes necessary to produce a transaction-based methodology, but may also establish minimum deal parameters for use by a methodology that is based primarily on judgment.

Should no transaction threshold exist, or should submitted data fall below this methodology's stated transaction data threshold for any reason, Argus will follow the procedures outlined elsewhere in this document regarding the exercise of judgment in the price assessment process.

Transparency

Argus values transparency in energy markets. As a result, where available, we publish lists of deals in our reports that include price, basis, counterparty and volume information. The deal tables allow subscribers to cross check and verify the deals against the prices. Argus feels transparency and openness is vital to developing confidence in the price assessment process.

Swaps and forwards markets

Argus publishes forward assessments for numerous markets. These include forward market contracts that can allow physical delivery and swaps contracts that swap a fixed price for the average of a floating published price. Argus looks at forward swaps to inform physical assessments but places primary emphasis on the physical markets.

Publications and price data

Argus polyvinyl chloride prices are published in the Argus Global Polyvinyl Chloride report. Subsets of these prices appear in other Argus market reports and newsletters in various forms. The price data are available independent of the text-based report in electronic files that can feed into various databases. These price data are also supplied through various third-party data integrators. The Argus website also provides access to prices, reports and news with various web-based tools. All Argus prices are kept in a historical database and available for purchase. Contact your local Argus office for information.

A publication schedule is available at www.argusmedia.com

Corrections to assessments

Argus will on occasion publish corrections to price assessments after the publication date. We will correct errors that arise from clerical mistakes, calculation errors, or a misapplication of our stated methodology. Argus will not retroactively assess markets based on new information learned after the assessments are published. We make our best effort to assess markets based on the information we gather during the trading day assessed.

Ethics and compliance

Argus operates according to the best practices in the publishing field, and maintains thorough compliance procedures throughout the firm. We want to be seen as a preferred provider by our subscribers, who are held to equally high standards, while at the same time maintaining our editorial integrity and independence. Argus has a strict ethics policy that applies to all staff. The policy can be

found on our website at www.argusmedia.com. Included in this policy are restrictions against staff trading in any energy commodity or energy related stocks, and guidelines for accepting gifts. Argus also has strict policies regarding central archiving of email and instant messenger communication, maintenance and archiving of notes, and archiving of spreadsheets and deal lists used in the price assessment process. Argus publishes prices that report and reflect prevailing levels for open-market arms length transactions (please see the [Argus Global Compliance Policy](#) for a detailed definition of arms length).

Consistency in the assessment process

Argus recognises the need to have judgment consistently applied by reporters covering separate markets, and by reporters replacing existing reporters in the assessment process. In order to ensure this consistency, Argus has developed a programme of training and oversight of reporters. This programme includes:

- A global price reporting manual describing among other things the guidelines for the exercise of judgment
- Cross-training of staff between markets to ensure proper holiday and sick leave backup. Editors that float between markets to monitor staff application of best practices
- Experienced editors overseeing reporting teams are involved in daily mentoring and assisting in the application of judgment for illiquid markets
- Editors are required to sign-off on all price assessments each day, thus ensuring the consistent application of judgment.

Review of methodology

The overriding objective of any methodology is to produce price assessments which are reliable and representative indicators of commodity market values and are free from distortion. As a result, Argus editors and reporters are regularly examining our methodologies and are in regular dialogue with the industry in order to ensure that the methodologies are representative of the market being assessed. This process is integral with reporting on a given market. In addition to this ongoing review of methodology, Argus conducts reviews of all of its methodologies and methodology documents on at least an annual basis.

Argus market report editors and management will periodically and as merited initiate reviews of market coverage based on a qualitative analysis that includes measurements of liquidity, visibility of market data, consistency of market data, quality of market data and industry usage of the assessments. Report editors will review:

- Appropriateness of the methodology of existing assessments
- Termination of existing assessments
- Initiation of new assessments.

The report editor will initiate an informal process to examine viability. This process includes:

- Informal discussions with market participants
- Informal discussions with other stakeholders
- Internal review of market data

Should changes, terminations, or initiations be merited, the report editor will submit an internal proposal to management for review and approval. Should changes or terminations of existing assessments be approved, then formal procedures for external consultation are begun.

Changes to methodology

Formal proposals to change methodologies typically emerge out of the ongoing process of internal and external review of the methodologies. Formal procedures for external consultation regarding material changes to existing methodologies will be initiated with an announcement of the proposed change published in the relevant Argus report. This announcement will include:

- Details on the proposed change and the rationale
- Method for submitting comments with a deadline for submissions
- For prices used in derivatives, notice that all formal comments will be published after the given consultation period unless submitter requests confidentiality.

Argus will provide sufficient opportunity for stakeholders to analyse and comment on changes, but will not allow the time needed to follow these procedures to create a situation wherein unrepresentative or false prices are published, markets are disrupted, or market participants are put at unnecessary risk. Argus will engage with industry throughout this process in order to gain acceptance of proposed changes to methodology. Argus cannot however guarantee universal acceptance and will act for the good order of the market and ensure the continued integrity of its price assessments as an overriding objective.

Following the consultation period, Argus management will commence an internal review and decide on the methodology change. This will be followed by an announcement of the decision, which will be published in the relevant Argus report and include a date for implementation. For prices used in derivatives, publication of stakeholders' formal comments that are not subject to confidentiality and Argus' response to those comments will also take place.

Publication schedule

Polyvinyl chloride (PVC) prices are assessed and published each Friday. See the [Argus publication schedule](#) for a list of dates on which Argus Global Polyvinyl Chloride is not published.

Units and currencies

Argus PVC prices are published in US dollars per metric tonne, unless otherwise stated.

US

Contract prices

There is no single contract price for any individual market — independent producers and consumers agree their own starting gross contract prices and negotiate monthly movements on an independent, arms length basis.

Discounts to the gross contract may also be negotiated. Discounts may be based on factors such as volume, volume flexibility, delivery, payment terms or any other factor agreed between the buyer and seller. These discounts may be dependent on reaching contract targets, on volume, for example. The exact terms will usually be private and confidential between buyer and seller.

The different contract prices are not assessed in isolation and the premiums and discounts between different polymer grades are used in the assessment process.

Argus monthly delta

Argus surveys participants on the change in contract prices from month to month and publishes assessments of the month-on-month price changes designed to capture the monthly change in price most representative of the market as a whole, called the Argus Delta or Argus Δ . This is in keeping with the nature of monthly negotiations between buyers and sellers, which focus on monthly price movement rather than outright price levels.

Low-high ranges for the movements are also published.

The Argus Delta will not necessarily be the midpoint of the published high and low contract price change.

Argus contract price

Argus also publishes monthly outright gross contract prices that move in line with the corresponding Argus Delta, except when an annual reassessment of the outright price is made in March for publication in the first published report in April.

The annual reassessment is intended to capture rebates within existing contracts and renegotiations of long-term contracts between buyers and suppliers that can lead to changes in the outright prices in the market outside of the usual monthly negotiation process.

Timing

Argus publishes an assessment of the monthly deltas and contract prices from the third publication of the month in question until the first publication of the following month, when the final monthly contract price assessments are typically made. The second publication of the following month republishes the final monthly contract price assessment.

In the event that the monthly contract has not settled by the first publication of the following month, the final monthly price assessment will be published in the second publication of the month. The final monthly contract price assessment is not an average of the previous assessments for the month in question.

Location and specification

Contract price assessments are of a negotiated contract price for general-purpose grades meeting the US polymer specifications listed below, delivered east of the Rocky Mountains during the named month.

US contract prices are published in both US cents per pound and US dollars per tonne.

Monthly delta and contract prices are published for PVC pipe.

Market information received after 11am Houston time may not be considered for inclusion in the assessment.

Export prices

Export price assessments are for bagged material on an FAS (free-alongside-ship) Houston basis. Assessments are for a volume equivalent to at least one railcar (unbagged), meeting the quality specifications listed below, delivered to buyer up to 30 days from the date of publication, and under export-only conditions.

Export prices are published for PVC pipe.

US export prices are published in both US cents per pound and US dollars per tonne.

Market information received after 11am Houston time may not be considered for inclusion in the assessment.

Specifications

PVC pipe

Polyvinyl chloride – pipe grade

General purpose rigid extrusion pipe-grade PVC, K-value of 65-68

Northwest Europe

Contract prices

There is no single contract price for any individual market — independent producers and consumers agree their own starting gross contract prices and negotiate monthly movements on an independent arms length basis.

Discounts to the gross contract may also be negotiated. Discounts may be based on factors such as volume, volume flexibility, delivery, payment terms or any other factor agreed between the buyer and seller. These discounts may be dependent on reaching contract targets, on volume, for example. The exact terms will usually be private and confidential between buyer and seller.

The different polymer grades are not assessed in isolation and the premiums and discounts between different polymer grades are used in the assessment process.

Argus monthly delta

Argus surveys participants on the change in contract prices from month to month and publishes assessments of the month-on-month

price changes designed to capture the monthly change in price most representative of the market as a whole, called the Argus Delta or Argus Δ . This is in keeping with the nature of monthly negotiations between buyers and sellers, which focus on monthly price movement rather than outright price levels.

Low-high ranges for the movements are also published.

The Argus Delta will not necessarily be the midpoint of the published high and low contract price change.

Argus contract price

Argus also publishes monthly outright gross contract prices that move in line with the corresponding Argus Delta, except when an annual reassessment of the outright price is made in March for publication in the first published report in April.

The annual reassessment is intended to capture rebates within existing contracts and renegotiations of long-term contracts between buyers and suppliers that can lead to changes in the outright prices in the market outside of the usually monthly negotiation process.

Timing

Argus publishes an assessment of the monthly deltas and contract prices from the third publication of the month in question until the first publication of the following month, when the final monthly contract price assessments are typically made. The second publication of the following month republishes the final monthly contract price assessment. In the event that the monthly contract has not settled by the first publication of the following month, the final monthly price assessment will be published in the second publication of the month. The final monthly contract price assessment is not an average of the previous assessments for the month in question.

Location and specification

The contract is typical of the major markets in Germany, Benelux and France, and is based on “general purpose grades” and does not allow for any surcharges associated with more advanced grades.

The price assessment does not cover break-bulk activities and does not reflect the geographic variations across the smaller European markets (Spain and Italy typically have lower prices).

Northwest Europe contract prices are published in both euro per tonne and US dollars per tonne.

Monthly delta and contract prices are published for PVC pipe.

General specifications

Although specifications have been included below, most polymer grades are selected by performance criteria rather than measured specification. These values are a guide only.

Contract terms: gross (before any discounts are applied)

Delivery: Delivered mid-northwest Europe

Load size: “full load deliveries” – typically a 20-25t load depending on local regulations

Specifications

PVC pipe

Polyvinyl chloride – pipe grade

rigid extrusion-grade suspension PVC, K-value of 66-68

Turkey

Argus assesses Turkish spot prices as the range within which product traded or could have traded based on confirmed deals, bids and offers.

Price assessments are of the prevailing range of prices in the market since the last assessment. While all relevant market information is considered for inclusion in a given assessment, in periods of high volatility, assessments are weighted towards market activity that occurred closer to the day of publication.

Cfr Turkey PVC — western Europe origin

Argus assesses import prices for western European-origin cargoes of PVC on a cfr Turkish ports basis.

Western Europe refers mainly to France, Spain, Belgium, the UK and Norway.

Price assessments are for 200-1,000t cargoes delivered 2-6 weeks forward from the assessment date. Prices are published in \$/t.

General specifications

All trades are based on “general purpose grades”.

Specifications

PVC pipe k67

Polyvinyl chloride – pipe grade

Rigid extrusion-grade suspension PVC, K-value of 67

Price assessments are for trade of at least 50t.

Argus generally maintains a \$20-50/t assessment range for cfr China price assessments. Assessment ranges can be widened by \$10-20/t when the market is in wide discussion or large volume transactions are concluded out of the mainstream range.

Ex-works China spot

Ex-works China spot prices include value-added tax.

The Chinese domestic market consists of the following regions:

- **east China:** Shanghai, Zhejiang, Jiangsu
- **south China:** Guangdong and Fujian
- **north China:** Tianjin, Beijing, Hebei and Shandong
- **northeast China:** Liaoning, Jilin and Heilongjiang
- **west China:** Xinjiang, Gansu and Shaanxi
- **southwest China:** Sichuan and Chongqing.

Assessments are for trade of at least 5,000t and are published in yuan per tonne.

Cfr India spot

Price assessments include deliveries to major ports in India. Assessments are for 100-1,000t cargoes.

In the absence of trade or bids and offers, Argus will publish an import-parity price, assessed as a domestic market price in Indian rupee/t and converted to \$/t.

Specifications

PVC pipe

Polyvinyl chloride – pipe grade

Rigid extrusion-grade suspension PV, K-value of 66-68

Ethylene based PVC exported from northeast Asia and the US

Carbide-based PVC in domestic market

Asia-Pacific

Argus assesses Asia-Pacific spot prices as the range within which product traded or could have traded based on confirmed deals, bids and offers. Market information is gained through conversations with buyers, sellers, traders, shippers and other informed industry sources. All assessments are for “general purpose grades”.

Price assessments are of the prevailing range of prices in the market since the last assessment.

Timing

Delivered 5-35 days forward from the assessment date

Cfr China spot

China's main ports are mainly located in three regions. Prices are assessed for each of:

- **east China:** Shanghai, Ningbo, Nanjing and Qingdao
- **south China:** Xiamen, Fuzhou, Shenzhen, Huangpu, Guangzhou, Shantou
- **north China:** Tianjin and Dalian

Feedstocks

Argus Global Polyvinyl Chloride includes feedstock costs. Prices are the latest available at the time of publication.

Crude (\$/bl)

- Ice Brent front month
- Nymex WTI front month

Naphtha (\$/t)

- 70 min paraffin USGC waterborne delivered — see the [Argus US Products methodology](#)
- 65 para cif northwest Europe — see the [Argus European Products methodology](#)
- Japan c+f — see the [Argus Asia-Pacific Products methodology](#)

Ethylene (\$/t)

- Pipeline delivery US Gulf coast spot
- Europe monthly contract price
- cfr northeast Asia

See the [Argus Ethylene methodology](#)