# Rescue package tabled for S$3.2b Jurong petrochem plant

### Jurong Energy Investment, Trafigura propose to restart JAC's facility in two months

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RESCUE operations could be underway to revive Jurong Aromatics Corporation's (JAC) S$3.2 billion petrochemical facility, which has been idling on Jurong Island for about seven months now.

Jurong Energy Investment Corporation (JEI) – a company jointly established by Arovin and Sheffold Investments, which have a combined 20 per cent stake in JAC – and commodities trading house Trafigura have issued JAC a proposal to restart its facility within the next two months.

The proposal comes in at the eleventh hour. JAC's plant started up last August. If the project has a repayment holiday of about a year after commissioning, institutions would expect repayments to start soon.

JEI's chief operating officer Daniel Palsson told *The Business Times* that the proposal outlines a fully funded deal to finance the start-up operations of JAC's facility. The deal includes the funding of JAC's working capital requirement and facilitating condensate feedstock supply.

Under the arrangement, Trafigura will supply condensate feedstock to JAC, while JEI will offtake products, with the exact terms negotiable with JAC's stakeholders, Mr Palsson said.

The proposal has received the support of JAC's board of directors and the company is in the process of obtaining approvals from the relevant authorities, lenders and stakeholders, he added.

When contacted by BT, a JAC spokesman acknowledged receipt of the proposal but said: "As discussions are undergoing, we are unable to share more details due to confidentiality."

JAC's petrochemical facility includes a condensate splitter and an aromatics complex. Its main driver is the production of paraxylene (up to 800,000 tonnes per year), an aromatic used to produce polyester.

The facility can also produce aromatics such as benzene and orthoxylene, and petroleum products including light naphtha and jet fuel.

In mid-December last year, barely five months after launch, JAC halted operations at its facility amid weak market conditions. Aromatics prices had faltered from oversupply and low crude oil prices.

The economics of aromatics production has since improved. In the past few months, paraxylene spreads over naphtha have risen above US$350 per tonne – the breakeven price point for paraxylene units to sustain operations. Last Friday, the spread stood at US$378 per tonne, data from price assessment provider ICIS shows.

It should be an appropriate time for JAC to restart given the current situation – but challenges remain, said Anu Agarwal, vice-president of chemicals at market data provider Argus Media.

Later this quarter, China's Ningbo Zhongjin Petrochemical is expected to start up its two million tonnes per year paraxylene plant. "This will put pressure on paraxylene margins again if the facility starts as planned," Ms Agarwal said.

In June next year, India's Reliance Industries is set to fire up another 1.8 million tonnes per year paraxylene unit.

Maintaining profitability in the current market is "fundamentally going to be tough", said Wood Mackenzie's chemical analyst Darryl Xu. "It is good that someone wants to take the lead, but in the end the initiative still has to make money."

Based on a free trade agreement between China and Asean, all paraxylene produced within Asean (based on Asean-sourced feedstock) enjoys import duty exemption in China, which accounts for about 2 per cent of product value.

Said Ashish Pujari, senior director of aromatics & fibres at IHS Chemical: "If Trafigura is able to source all of the feedstock in the region, then their case will be stronger."

But whether the plan eventually sees the light of day will ultimately rest on JAC's multiple stakeholders arriving at a collective decision.

The restart of JAC's plant has long been delayed by its messy stakeholding structure. JEI and Trafigura's proposal may be no exception.

JEI acknowledges this fact. "The challenge is in decision-making . . . you can show the horse water, but you cannot force it to drink," said Mr Palsson.

JAC's largest shareholders are South Korean conglomerate SK Group (30 per cent) and Chinese polyester maker Jiangsu Sanfangxiang Group (25 per cent).

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The remaining 45 per cent stake is collectively owned by Houston-based Arovin (10.5 per cent), Swiss trader Glencore, Indonesia's Sridjaja family's Shefford Investments (9.5 per cent), Singapore's Economic Development Board (5 per cent), Thai KK Industry Co, and India's Essar Group.

Oil major BP is the provider of JAC's subordinated debt facility, as well as its supplier and offtaker. In April 2011, 10 banks also took part in a US$1.56 billion debt financing package launched by the company.

Not all of JAC's investors are convinced of the proposal's viability. Some partners may be facing financing issues and are reluctant to take part in the business risks of running JAC, said IHS's Mr Pujari.

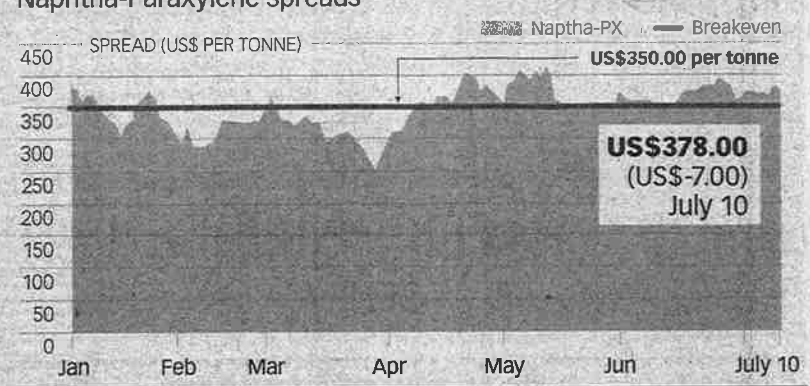
SK Group has another jointly owned paraxylene unit in South Korea to consider in its decision to restart JAC. BT also understands that the whereabouts of Jiangsu Sanfangxiang Group's CEO are unknown after an anti-corruption clampdown, which adds further uncertainty to the decision-making process. But financial investors may have no option but to try and run the asset. Said Mr Pujari: "The only other option is to sell off their investment, but there would not be any taker for it as long as JAC is shut."

"It has been almost a year since closure. If shareholders are stuck in limbo, it will be the debtors that will get it running," said Wood Mackenzie's Mr Xu.

With skin in the game, JEI's objective is simply to get JAC's plant running again, Mr Palsson said. It is also in Singapore's best interest to restart a major industrial plant which hires around 350-400 employees, he said.

**Tough play**

Naphtha-Paraxylene spreads




Source: ICIS