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Exxon Mobil, Saudis look to create petrochemical venture in Texas

Site proposed for Gulf Coast

Exxon Mobil Corp. and a company owned by the government of Saudi Arabia are proposing to build a multibillion-dollar petrochemical complex along the Gulf Coast, the first U.S. joint venture for two of the world's biggest energy juggernauts.

Exxon Mobil and the Saudi Arabia Basic Industries Corp., known as SABIC, said Monday that they're considering sites in Texas and Louisiana to take advantage of cheap and abundant natural gas supplies in Texas and beyond. Natural gas is used as the primary feedstock for local petrochemical plants.

Exxon Mobil and SABIC, which have partnered for more than three decades in Saudi Arabia, are looking in Victoria as well as the Corpus Christi area, specifically San Patricio County, Exxon spokeswoman Margaret Ross said. In Louisiana, talks have begun with officials in Ascension and St. James parishes, both of which are between Baton Rouge and New Orleans.

SABIC is the largest publicly traded company in Saudi Arabia, but the government controls a majority stake.

The Saudis, who are trying to diversify their economy from crude oil, are working to expand petrochemical capabilities worldwide so they can become a global player in refined products, as well as raw materials, said Ed Hirs, an energy economist at the University of Houston. For Exxon Mobil, it allows the company to split the costs and free up capital as low oil prices squeeze the company's revenues. It also gives Exxon Mobil a well-run partner with deep pockets.

"It's a new facet and a new direction for an ongoing relationship," Hirs said. "The Saudi king has wanted to make it more of a global enterprise."

The Gulf Coast petrochemical sector has taken off in recent years because of the shale gas boom began nearly a decade ago. The American Chemistry Council, a chemical industry trade group, estimates that counts more than 250 petrochemical projects are getting built or planned across the country through 2023, creating about 70,000 jobs. The combined cost is about \$160 billion, including about \$50 billion just in Texas.

Global giants like Exxon Mobil and SABIC typically won't make such big announcements unless they plan for the project to come to fruition, said Dave Witte, senior vice president at the IHS research firm who focuses on the petrochemical industry.

While Saudi Arabia is awash in oil, Witte said, its natural gas supplies are tightening, so tapping new sources through a U.S. expansion makes sense. The port access along the Gulf Coast would also allow the Exxon Mobil-Saudi joint venture to ship chemicals and plastic to developing countries in Asia and elsewhere.

"That is vitally important as most of the chemical demand growth in the next several decades is anticipated to come from developing economies," Exxon Mobil Chemical President Neil Chapman said.

The Exxon Mobil-SABIC project probably wouldn't start construction until 2018 or come online until after 2020, said Pavel Molchanov, an energy analyst at Raymond James in Houston. That might be just as well, since a global economic slowdown is hurting demand for plastic products, packaging and automotive parts, and contributing to a glut of petrochemicals.

"What matters is not today's spot pricing but the expectation of where prices will be during the 2020-2040 time frame," he added.

Saudi Arabia has a major Texas presence already through its Motiva Enterprises venture with Royal Dutch Shell. Saudi Arabia and Shell are negotiating an end to the venture, but the Saudis are expected to hold on to the Motiva brand, the Port Arthur refinery - the largest in North America - and 26 distribution terminals.

As for the petrochemical proposal, Exxon Mobil and SABIC said the project would involve building a world-class steam cracker, which takes separated parts of natural gas, such as ethane, and uses steam to break them into petrochemicals like ethylene, the primary building block of most plastics.

Before making a final decision on the project, Exxon Mobil and SABIC said they will do studies and work with state

and local officials to help identify a potential site with adequate access to roads, pipelines and port facilities.
Exxon Mobil also has existing petrochemical complexes in Baytown and Mont Belvieu.

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