



ICIS Propylene Methodology Consultation

Response 3

General Questions

Q1 - The propylene market lacks liquidity and therefore poses challenges to determine an accurate measure of the physical market value. The propylene market is also traded in very distinct qualities and regions on varying modes of transport. This can lead to inconsistencies in the approach and reporting of deals that may or may not reflect or be comparable with other market activity. ICIS reporters should be better informed about the markets in general and more able to discern the relevance and comparability of reported deals. The methodology should support more rigor on the part of the reporters to assess individual spot deals.

Q2 - I'm not ready to reply with such detail however in support of my answer to Q1 I would suggest that in less liquid markets with less specific deal terms / benchmarks / locations I would expect the methodology to direct reporters to ask specific questions with a view to establishing exactly how relevant the deal is and to ensure its inclusion in the right report or not. For example questions on quality, logistics constraints or any other "special" conditions of a deal. Again in the light of low liquidity reporters should be directed to formally and structurally with clear guidelines question the market participants and ensure maximum input in a concise and comparable fashion. Current practice of "informal chats" is weak.

Q3 - Contract prices continue to serve as a valid reference within our business. Ethylene and Propylene spot prices are not consistent enough to lead our business activity or serve as a reliable price reference for deals etc. ICIS should consider a separate RGP price reference.

Q4 - No

Questions specific to Propylene and Ethylene Markets

Q5 - We do not believe that further restrictions on participation in the process would add value and would in fact lead to increased isolation of smaller companies for whom the price discussions and agreements are of equal importance. On the contrary we should encourage more participation and representation of wider product sectors and volume positions. Parties should have at least one valid arms length contract between NET seller and NET buyer, requiring additional counterparties would potentially isolate the most vulnerable consumers (single supply/ isolated).

In addition it would be quite impractical to determine which contract partners met the combined criteria and it is unreasonable to expect the market as a whole to willingly and completely disclose their contract portfolio. On the other hand if a restriction on the volume is favoured by the market as a whole then the volume benchmark should be small in the range 50-100KT.



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Q6 - Again any new restriction in participation would make it more difficult for the market to come to an agreement, some buyers are representing several derivative sectors while some sectors are small and such this change would potentially lead to disproportionate representation of smaller speciality sectors. Current process does however favour sectors with larger numbers of net buyers (e.g. PVC) rather than proportional representation of the sectors. We can live with the current process.

Q7 - In combination with increased participation 3+3 may be possible, or some balance between size (of company involved or sector representation) where a 3rd were needed in case the total weight of the settlement is below a valid threshold / critical mass. I would however point out that if the market were to restrict the participation in any way as per question 5/6 then it will be quite impossible to move to a 3+3 system. We are therefore generally in favour of the current 2+2.

ICIS could within their methodology only report fully agreed numbers, however other agencies will continue to report news as they see fit, including initial settlements. Weakening ICIS ability to provide data to the wider market, with an audience far outside the small group of monomer contract partners, could undermine ICIS position. In the end those involved in the discussions will know anyway and only ICIS and their wider customer base would lose out. More worrying is that such a process could increase the chances of multiple and linear settlements that did not reflect the wider view of market range and there is increased risk of multiple settlements further confusing the process.

Q9 - I did respond to Nell's questionnaire and hope that these responses are consistent. You may a) use the comments and b) keep them private.

Propylene Specific Questions:

Q8 - We are aware that the CIF prices are unduly influenced by low quality material that does not have industry wide appeal or use. Something should be done to ensure accurate reporting of CGP prices but I am not sure I am in any position to recommend an alternative.

Q10 - We have no comment on this.