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## MARKETING POLICY ISSUES IN REALIZING THE PETROCHEMICAL INDUSTRY PRODUCTION IN IRAN

HOSSEIN ESMAEILI SHAHMIRZADI

The difference of gas exportation price in international markets to petroleum prices and bioenvironmental advantages of this energy carrier in the industrial activities, the price leap in the refinement process and making considerable added value on the refinement products have caused the main global gas producers to enter the production lower part chains and the owners of gas resources convert to the serious actives of competitions field of Petrochemical market over the recent decade. By the movement of gas from raw-selling centers to the Petrochemical high field, the attention of all actives has turned toward manifested trades and modern marketing methods. However, in this course not all product providers will be successful and depending on the limited and certain size of every market, they have to accept their different share in various markets.

If we consider market-capturing as new competition in Petrochemical industry, only those who are also "active market-knowing" are named "active player" in this field. In the process of assessing investments, the management and commerce of Petrochemical will be the basis of every analysis. Beyond it is the recognition of future opportunities in the Petrochemical industry that can open a creative path in the global competition of this field in front of every company.

Iran, over the past 10 years has done outstanding investments in the Petrochemical industry and now after these years, we can provide a reasonable assessment of the amount of investment efficiency in our country. However, with no regard to the success or failure of these investments efficiency, we need to pay attention to the course of attracting it and its effects in the production process, marketing, selling, and the profit made in the Petrochemical industry.

Various countries make use of a range of methods for their foreign investment in Petrochemical industry.

1. Finance Method is one of the most famous and most applied ones, according to which the borrower country besides taking loans, repays the principal loan and its profit after selling the product. This method will be useful, should the borrower possess managerial, economic, organizational and technological capabilities and enjoy selling proper opinions and optimum marketing standards on the path of understanding target market potentials on internal levels. Otherwise, the borrower incurs a loss and in addition to non-profitability from product selling, encounters legal requirements resulting from finance. Up until now, Iran has performed a lot of plans in the Petrochemical industry based on this method.

2. The second method concerning foreign investment in the Petrochemical industry can be a mutual sale. The method implies that a foreign investor will with-

draw his/her capital and profit according to the defined contract from the credit of produced products sale and under such conditions the foreign investor undertakes some obligations concerning the quality of product sale market and contribution to the plan management. In the Petrochemical plans of Iran, mutual sale seems to be the best method, however the investor country imposes and brings forward special conditions for it entering the market, regarding the security risks in the investee country. Sometimes Iran encounters the unwillingness of investors.

3. Foreign Direct Investment is another method, according to which the investor country owns some part of the plan and is regarded as an internal investor partner. In this method because of profit division with foreign investor, we observe its sensitivity to marketing types and the share of presence in high consuming markets. This is one of main advantages of this method.

4. Besides these cases, other methods like BOT can be named, a method, which mainly is executed in developed country to assign governmental section charges to private section. Until now, Iran has not had so much experience concerning BOT and recently Utility unit contract has been concluded in Asalooye in this way.

In the Petrochemical industry, according to the available statistic data, 25 plans remained from the fourth program for Iran development program and 33 plans of development from the fifth program. An approximate amount of 30 billion dollar investment is required. Determining the manner of attracting this investment, will certainly affect the attraction speed and investments combination, which itself is an agent protruding from global market and future needed products. Thus, the method of investment attraction will have direct impact on the amount and manner of transferring experiences, technology, and marketing knowledge<sup>1</sup>.

However, some analyzers stress that the impression of initial investment type on the profitability amount of a Petrochemical complex can be assessed at about 5-10 percent. This low amount of impressionability may be accounted for by the internal laws in Iran. Because it is expected in foreign contribution and investment units that non-Iranian parties specify certain share of product to themselves, the responsibility charge of Iran decreases in marketing section. However, now more than 90% of produced products of Petrochemical sector are delivered to Petrochemical Commercial Company for marketing. The reason for this lies in the finance of projects and initial capital attraction that mainly takes place with the guarantee of National Iranian Petrochemical Company. After the completion of project, National Iranian Petrochemical Company because of its initial capital repayment guarantee is obliged to receive the product and sell it according to government strategies (Aryasol Complex). Therefore, the investment attraction process is influenced by internal laws instead of being protruding from scientific – economic view<sup>2</sup>.

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<sup>1</sup> "Market Place, New Competition in Petrochemical Industry", Talk between Engineer Habib Khalaj (Adviser to Petrochemical Projects) with Iran Newspaper, 2008, N 3958.

<sup>2</sup> "Protection of Sovereignty Role of National Petrochemical Company by Remaining in Oil Industry", Naft News, 2009.

Another view states that Iran's Petrochemical industry has encountered new rivals named Iranian private complexes sector in international markets that have similar products to offer. Before the privatization process, in certain sectors, Iran made a profit from mono-market advantage and possessed price determination. Now, such privatized complexes as Khorasan, Shiraz ... by introducing products like Urea and Ammoniac to market provide the purchasers with more choice. Therefore, by developing an internal strategy, we can convert the competitive position of Petrochemical Commercial Company with these complexes to partnership. This does not imply that Petrochemical Commercial Company should be sold to private sector but National Iranian Petrochemical Company of Iran can maintain 50 percent of its share and offer the rest of shares to privatized complexes to make profit from price.

Therefore, it seems that in Petrochemical of Iran as before the price of feed, as the most important effective factor in profitability of a complex, keeps its place. Today, Bandar Imam Petrochemical complex that has suitable feed price is considered one of most profitable projects of country, while Amir Kabir and Jam complexes because of the deprivation of feed with suitable price do not afford this advantage. Considering the fact that ethane and natural gas are two main types of feed of Petrochemical complexes, the comparison of current prices in Iran with neighbouring countries like Saudi Arabia and Qatar shows that Iran has the highest regional prices.

For ethane, Saudi Arabia has announced the lowest price of 50 dollars in each ton and Qatar 90 dollars. Iran with its 125 dollars price for each ton of ethane product specified the highest price in region to itself. As polymer production complexes and olefins units use ethane and petroleum feed, we have to separate ethane from natural gas.

Also, in those methanol and chemical fertilizer production units which use natural gas feed, the lack of final price mainly suspends the projects. As the government does not announce the final price, foreign investors cannot offer possibility for measuring the plan and actually are reluctant or slow to make investment in this section. This process will eventually have a negative effect on the relative advantage of methanol and chemical fertilizer production in Iran.

Another effective factor in profitability of refinement industry is project management in economic global system. Project management is a central and strategic instrument that considers quality, time, cost factors, and includes a wide range of equipment and workforce. The optimum performance of every unit causes whole convergence and co-increase. The project management emphasizes that in the process of globalization, the cost of production should decrease in order to provide effective competition ground in the market. However, Iran in the schedule of construction, installation, and operation of Petrochemical plan acts perfectly, but it is yet far from international indexes. The optimization of this managerial project, undoubtedly, will be in conjunction with constructing infrastructures, the change of rules, governing plans, and privatization. Also, the project management inclusive system should get native according to global patterns and with knowledgeable management approach.

When analyzing the facts of Petrochemical exportation approach and the manner of current marketing, we need to design and formulate the strategy of exportation development and in this respect we have to define some sectors where Iran Petrochemical has an advantage. Hence, the target markets that enjoy demand stability for Iran production goods should be determined. Also, threats and opportunities facing Iran's production in global markets need to be clarified. According to proportional advantage and competitive ability, we can design the strategy of exportation development and promote competitive ground of Iran in global markets. Essential Petrochemical products of Iran include ethylene, PVC plastic, polymers, propylene, and chemical benzene, for the marketing of which we should have clear understanding of target society economic needs. This issue helps to design produced products basket based on the needs of market and results in discovering guaranteed markets<sup>3</sup>.

In the current conditions, the global changes in Petrochemical industry have led Persian Gulf to be one of main producers. This position will undoubtedly increase in the next two decades and some statistic data suggest that by 2015 about 25 percent of methanol capacity, 20 percent olefin capacity, and 15 percent liquidate combinations should have been produced in the Persian Gulf. This issue is a result of change in natural gas usage attitude and the increase of oil price. However, the success level of each producer in global market is determined by their approach. Developed countries mainly have long-term approaches to market development and draw up great programs for selling their products. In the current conditions, Petrochemical industry needs fundamental changes in order to maintain its competitive status.

Petrochemical structure renewal, production excessive and the rate decrease of capital return in the developed country have driven them toward integration of production institutes and strategic contracts conclusions in the Petrochemical sector to maintain its competitive ability by increasing empowering effects. Constituting regional blocks and product division made the market and complementary technology of applying developed technology to the industry and promotion of products added value. Thus, at the present stage of competition, a strategic policy is crucial. Iran, over the past years has marketed sulfur, butane, propane, pentane and MTBE and succeeded in empowerment. In some coordination, which is made with regional producers such as Saudi Arabia, Qatar, and Kuwait, Iran, succeeded under the management of Commercial Ministry to apply a period of price bottom and ceiling for the market of these products, especially sulfur that had common advantages for the region.

In the considered period, Commercial Ministry was holding weekly meetings with related experts concerning the regional approved price. However, this process needed energy, time, and skilled experts' presence concerning each product. Therefore, the system stopped and separate marketing of these products by regional producers turned them into rivals. While, in addition to providing certain program and

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<sup>3</sup> Petrochemical Industry and Market of Iran (2005), Alexander Gas & Oil Connections, Market Reports. In: [www.gasandoil.com](http://www.gasandoil.com)

clarifying advantages, the supplement process can avail the formation of regional integrated organizations in the Petrochemical field and result in acceptance of regional cooperation. Empowering, in a region that often Petrochemical producer countries in one or some product have proportional advantage (Iran's methanol in the region) can entail mutual advantages<sup>4</sup>.

In the Middle East region, Iran, Saudi Arabia, and Qatar enjoy primary resources advantages and cheap energy, so they can rather co-operate than compete with each other by making strategic contracts. The process raises the position of these countries in the field of global competition. What already has been observed is a destructive competition in the target market, which is a result of these passive countries. While offering cooperation in this field, Iran can do empowering and study the possibility of integrating production complexes in the future.

On the other hand, Petrochemical industry of Iran also faces market saturation challenge in the internal market in a way that the increase of new constructed complexes supply has engaged internal marketing in a difficulty. This is because of Iran's traditional market behavior and great distance from Petrochemical lower part production units (unsuitable quality of final product), therefore despite absolute merit of Iran in Petrochemical products, we observe the importation of plastic final products from neighborhood countries (Turkey). However, unqualified internal products do not show any standardized Petrochemical basic products of Iran, but drive internal demand toward foreign products. Iran's production of plastic goods does not use up to date engineering and polymer products, and finally internal market is minimized. The population of Iran can prepare optimum market for Petrochemical industry, whereas Iran's neighboring rivals are deprived of this advantage. Therefore, the problems of internal market should be shifted on the exportation sector shoulder and make market attraction difficult<sup>5</sup>.

One of the solutions for decreasing this effect can be entering Petrochemical government sector into lower part field and final products production. Still, a lot of strategies are taken for a short term and with the aim of passing transient period, but by considering the great profits of industry might apply expert human force in the process of creating occupation and the production of final qualified parts. Such strategies result in internal market promotion and may develop the ability of this sector in the future by transmitting it to the private sector<sup>6</sup>.

Long-term programs, such as sharing internal profit among Petrochemical companies, empowering Iran's exportation ability and the internal market will undoubtedly grant hopeful future in front of Petrochemical of Iran and manifest enough space for future investments.

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<sup>4</sup> For more information see: Global Petrochemical Giant SABIC Sponsors London Sukuk Summit 2008, The 2008 London Sukuk Summit follows the highly successful Inaugural London Sukuk Summit along the theme 'Strategies for Today; Demystifying Islamic Capital Market Products' held in June 2007. PR Log (press release), 27 may 2008, [www.prlog.org](http://www.prlog.org)

<sup>5</sup> "Analytical Report of Petrochemical Industry in the World and Iran" by Siros Geranmayeh Senior Expert for Capital Marketing see [www.Boursenegar.com](http://www.Boursenegar.com)

<sup>6</sup> Turkish Economy Looks East to Counter Global Slowdown, by Yakup Kocaman, February 12th, 2009. see in: <http://www.dinarstandard.com>

**ՀՈՍԵՅԻՆ ԷՍՄԱՅԵԼԻ ՇԱՀՄԻՐԶԱԴԻ – Իրանի նավթաքիմիական արդյունաբերության արտադրանքի իրացման մարքեթինգային քաղաքականության հիմնախնդիրները** – Հոդվածը վերաբերում է Իրանի նավթաքիմիական արդյունաբերության արտադրանքի մարքեթինգային քաղաքականության իրականացման խնդիրներին և խոչընդոտներին: Դիտարկվում են Իրանի նավթաքիմիական արդյունաբերության տարատեսակ արտադրանքների իրացման հիմնահարցերը: Քննարկվում են ինչպես արտաքին, այնպես էլ ներքին մրցակիցների ռազմավարությունները, և հետևություն է արվում, որ Իրանի նավթաքիմիական արտադրանքի արտահանման գործընթացը կարիք ունի արտահանման զարգացման ռազմավարության ձևավորման և Իրանի նավթաքիմիական արտադրատեսակների նկատմամբ մշտական պահանջարկ ունեցողների ցանկի հստակման, միաժամանակ պետք է բացահայտվեն այն վտանգները, որոնք կան համաշխարհային շուկայում Իրանի նավթաքիմիական արտադրանքի իրացման համար:

**ХОССЕЙН ЭСМАЕЛИ ШАХМИРЗАДИ – Проблемы маркетинговой политики реализации продуктов нефтехимической промышленности Ирана.** – В статье рассматриваются проблемы эффективной реализации разнородной продукции нефтехимической промышленности Ирана, анализируются стратегии как внешних, так и внутренних конкурентов. Импорт продукции нефтехимической промышленности Ирана нуждается в собственной стратегии: нужно четко определить целевые рынки и прояснить угрозы Ирану на мировом рынке энергоресурсов.