Europe TiO2 Rollercoaster Ride Continues

With Price Spikes, Supply Challenges

By Heidi Finch
It has been a real rollercoaster ride for players in the European titanium dioxide (TiO2) market for some years now, with extreme swings in pricing and supply. There is no sign of any relief in sight - at least in the short term.

Heightened price volatility has led to profitability concerns through the chain – with TiO2 producers reaching a critical point a few years ago. This has switched to buyers over the past year, due to a dramatic change in price direction. This, combined with the European Chemical Agency’s recent recommendation to classify TiO2 as a category 2 carcinogen, when inhaled, could lead buyers to look further into re-formulation and any substitution possibilities.

Signs of easing supply in Asia could also encourage European buyers to look more outside the region for volume and price leverage, depending on further price developments.

For some years, TiO2 producers struggled with a lack of profitability, which reached a critical point when European TiO2 contract prices plummeted by €375/tonne on average from the fourth quarter of 2014 to the first quarter of 2016 according to ICIS. This sizeable price drop was driven by structural global oversupply.

As TiO2 prices had reached unsustainably low levels, TiO2 producers took drastic action and a series of restructuring and cost-cutting measures have been carried out over recent years.

These measures have since addressed the structural oversupply globally to a large extent.

But the drive for market consolidation/rationalisation continues - with the following on the radar (See Proposed Market Changes table).

Restructuring, along with producers’ stricter inventory controls since the end of 2015, have resulted in a more finely tuned, tighter supply situation in Europe and also globally.

Unplanned issues such as Huntsman’s TiO2 plant fire at Pori in Finland, which occurred in early 2017, and continued robust demand, further exacerbated the market tightness in Europe.

The supply crunch in Europe has led to a relentless uptrend in pricing over the past year, which is becoming increasingly challenging for buyers.

European TiO2 contract prices for the third quarter of 2017 were assessed at €2.59–2.85/kg, up by €0.25–0.30/kg from the previous quarter, hitting the highest level since the ICIS quarterly contract assessment began back in Q4 2013.
Huntsman is due to spin off its TiO2 pigment business, named Venator Materials Corporation by 1H 2017.

Venator spin off is to provide "attractive investments, and the separation will unlock shareholder value" for both companies, according to Huntsman.

In August 2015, Tronox suspended two production lines, one at Hamilton, US and one at Kwinana, Australia, which cut capacity by 50,000 tonnes/year temporarily, but both lines were brought back up shortly after.

In February 2017, Tronox announced its plan to acquire Cristal’s TiO2 business and to create the world’s largest and highly integrated TiO2 pigment producer. The deal is due to be closed in Q1 2018.

In August 2015, Chemours consolidated its TiO2 production to 4 sites. With the new Altamira facility, Chemours expects to cut its costs by $20m/year. The South African plant closure is expected to achieve further cost reductions globally, in addition to the $200m already achieved.

The company Tronox-Cristal, once finalised, will boost the company’s competitive position with combined feedstock and TiO2 production assets and “provide an even better service to our customers” said a Cristal company spokesperson.

Prices rose successively from Q2 2016 to Q3 2017 by close to 40%, rocketing by a staggering €740/tonne on average, according to ICIS price history.

The upward price momentum over the past year has been due to ongoing market tightness for the most part, along with robust demand in most cases, as well as some pre-buying activity, where possible.

The continued price uptrend for TiO2 in Europe means that TiO2 buyers’ margin pressure is intensifying, as they are struggling to pass on the successive and sizeable price rises over the past year into the downstream market.

These TiO2 buyers said this is because of strong competition and longer-term contracts in place with some of their customers, among other factors.

“There is the double whammy, with the big guys [customers further downstream]. They want price stability, so our profitability is getting squeezed,” said one TiO2 buyer from the downstream paints and coatings sector.

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Some buying and reselling sources said that margins for
downstream players such as in the paints sector are not
only being hit by the relentless upward price pressure for
TiO2, which is a main chunk of their costs, but also by
some other feedstock costs, which are also moving up.

Some buyers said they have no option, but to try pass on
any price rises as and when they can.

Due to this intensifying margin pressure, TiO2 buyers are
also seriously re-visiting any possibilities to reduce their
TiO2 consumption (see pie chart for a breakdown of TiO2
market segments) and/or to substitute.

In addition, finding a direct substitute for TiO2 is not easy,
because in many cases TiO2 performance is unrivalled.

Although one buyer recently said that there are some
options, stating that it is reaching a level of acceptability
with its customers.

One buyer said it is concerned that while TiO2 may not be
substituted directly, end-users may start to opt for non-TiO2
based solutions.

An example of this would be increased use of wood and
veneer instead of TiO2-based paper laminate in furniture
and flooring. However, there is no evidence that we have
reached this point yet.

In fact, one player talked of an increasing trend towards
lighter and whiter furniture, paper and flooring. But there
is a risk that this trend could change, particularly if the
historically high TiO2 prices were to continue.

One customer, by contrast, said it had promoted off-white
and grey options for paints to its end-users, which has
enabled it to reduce its TiO2 consumption over recent years
for price-related reasons.

There are some signs that supply is starting to improve
in Asia, following prolonged tightness. The possibility that
more material could become available from Asia for Europe
could provide European buying sources with some
leverage in future price discussions, although this remains
to be seen.

While some European TiO2 buyers are already looking
more to Asia, this is mainly driven by the need to cover their
volume requirements due to the shortage in Europe rather
than for any price-related reasons at the time of writing.

One trader said it did not expect to see any significant
change in supply or prices in Europe until 2018 – until
imports from Asia were to become more attractive and with
Huntsman’s expected ramp up of its Pori production next
year.

Aside from supply and price volatility, the ECHA’s Risk
Assessment Committee (RAC) assessment of TiO2 as
a suspected carcinogen, when inhaled, adds further
complexity to the TiO2 situation in Europe.

Some players said that they have already reduced their TiO2
consumption by using fillers or other materials. However, the
flexibility to reduce TiO2 usage in formulations is somewhat
technically limited, according to market players.

There is also some talk that any attempts to change TiO2
buyers’ formulations to use less TiO2 were made some
years ago, particularly in 2011-2012 when the market also
experienced a period of price volatility and tightness. There
is a question mark, therefore, over how much leeway is still
left to be explored.
The European TiO2 Manufacturers Association (TDMA) has questioned the validity of ECHA RAC’s proposal and is fighting it, claiming that the tests and scientific data used by the RAC were not suitable or conclusive for this labelling.

A verdict has yet to be reached, however, until the European Commission makes its decision after taking into account the RAC’s scientific opinion, along with other comments.

While the RAC’s recommendation could also lead to more of a drive for re-formulation and substitution away from TiO2, there is no evidence that this is being done for this reason. Once again, the same technical limitations apply.

Industry players remain poised to see what will play out over the coming months — that is, whether the RAC’s scientific assessment will have any regulatory implications and how the seller landscape is likely to continue to evolve.

While tweaking formulations and exploring other possible substitutes may be an option to some extent, it may not be the best solution, unless performance of other alternatives is comparable to TiO2.

What is really needed is a period of price stability after the recent heightened volatility where economic sustainability is supported throughout the chain for the sake of the whole industry.

Heidi Finch has worked at ICIS for close to 11 years and during this time she has covered a range of petrochemical and chlorine-related products. She has established good working relationships with industry contacts across many sectors and has enhanced these relationships through regular face-to-face meetings, site visits and company presentations. She has also been involved with the research and development for certain product launches for various chemicals to include fatty acids, plasticizers and oxo-alcohols. On top of her regular report coverage, she prides herself in producing content in various forms to include infographics, podcasts and market videos, along with more analytical pieces such as insights and custom publishing projects.

ICIS DUTY AND REGULATORY BULLETIN

Most recently, Heidi contributed to the first ICIS Duty and Regulatory bulletin, which focused on developments in the chemicals and fertilizers regulatory space. Highlights include insights on spotlight products, along with interviews with lawyers and policymakers, covering the implications of Trump, Brexit, and China’s bid to be recognised as a market economy.

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