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Petrochemical Market Disruptions, Energy Security and the Future of Middle East Downstream Integration

BY:

CLAUDIO BRANDAO, HEAD OF CONSULTING, MIDDLE EAST, DOW JONES ENERGY &
ADRIAN CALCANEO, VICE PRESIDENT, ENERGY & FEEDSTOCKS, DOW JONES ENERGY

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Claudio Brandao, Head of Consulting, Middle East, Dow Jones Energy &
Adrian Calcaneo, Vice President, Energy & Feedstocks, Dow Jones Energy



The global petrochemical industry faces structural transformation driven by persistent overcapacity, geopolitical disruptions and changing oil demand patterns. China's expanding production capacity, declining operating rates and growing demand for chemical feedstocks are reshaping international trade flows. Middle East producers face mounting pressure to diversify export routes, strengthen downstream integration and capture greater value from crude oil.

Global Petrochemical Overcapacity Threatens Market Recovery

The petrochemical industry entered the current geopolitical crisis amid an unprecedented downturn, characterized by excessive production capacity and weaker-than-expected demand growth. China's pursuit of self-sufficiency has accelerated capacity additions, placing significant pressure on global operating rates and forcing rationalization across less competitive markets, particularly Europe.

Market conditions are unlikely to improve substantially before 2030. Approximately 14 million metric tons of additional ethylene capacity are expected in 2027, compared with demand growth of six to seven million metric tons. Operating rates could consequently decline toward 78%, significantly below the 86–88% levels considered necessary to support reinvestment.

Strait of Hormuz Disruptions Accelerate Supply Chain Diversification

The Middle East accounts for approximately 20% of global oil supply and 13% of petrochemical production, exposing international markets to significant disruption risks around the Strait of Hormuz. Asia remains particularly vulnerable because of its dependence on regional feedstocks and petroleum products.

Recent disruptions have accelerated diversification toward alternative suppliers, including the United States and Latin America. India's increasing reliance on US LPG illustrates how geopolitical instability is reshaping established commercial relationships. These changes could prove lasting, encouraging new government-to-government partnerships and strengthening the strategic importance of export infrastructure outside vulnerable maritime chokepoints.

Crude-to-Chemicals Integration Reshapes Long-Term Oil Demand

The transition from transportation fuels toward petrochemical feedstocks represents a fundamental shift in refinery economics. The presentation projected approximately 2% growth in fuel demand over the next 25 years, compared with a 60% increase in chemical demand, highlighting petrochemicals' growing importance in future oil consumption.

Crude-to-chemicals conversion is expected to play an increasingly important role in meeting future chemical demand, with the presentation projecting a contribution of approximately 20% by 2050. Middle East producers are increasingly pursuing downstream integration to improve competitiveness, optimize feedstock utilization and expand exports of higher-value chemical products.

Ultimately, petrochemical resilience will depend on diversified supply chains, competitive production economics and sustained downstream investment, positioning the Middle East to capture emerging opportunities in global chemical demand.



TOP 5 TAKEAWAYS

1. Capacity Rationalization to Restore Profitability
With operating rates expected to remain below reinvestment levels, producers could face further plant closures and capacity rationalization, particularly in higher-cost markets, as global oversupply persists.

2. Export Diversification to Strengthen Market Access
New supplier relationships established during geopolitical disruptions are expected to endure, encouraging Middle East producers to diversify export markets and strengthen commercial partnerships beyond traditional trading relationships.

3. Crude-to-Chemicals to Secure Future Feedstock Supply
As conventional refineries struggle to meet growing chemical feedstock requirements, crude-to-chemicals conversion is expected to play an increasingly important role, although technology will take time to mature.

4. India's Specialty Chemicals Growth to Drive Partnerships
Rising incomes, industrial expansion and increasing consumption of specialty chemicals are expected to support India's long-term demand growth, creating opportunities for deeper Middle East feedstock partnerships.

5. Downstream Integration to Boost Competitiveness
Greater downstream integration is expected to help Middle East producers reduce costs, improve feedstock utilization and adapt to changing fuel demand, strengthening their competitive position amid prolonged market pressures. ■

Source: The content has been harvested from a presentation by Dow Jones Energy at the Fujairah Energy Markets Forum on Oct. 7th, 2026)


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