

EAST Europe & C.I.S CHEMICALS BRIEFING

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CENTRAL EUROPE

Olefins

Important changes have been occurring in recent weeks in several Central European petrochemical companies, in part influenced by low profitability, and in part by the issue of privatisation. April saw a change in management at both Chemopetrol and TVK. In the Czech Republic, Unipetrol confirmed in late April stated that it had replaced top executives at Chemopetrol a.s., and also Benzina a.s. Unipetrol implemented these changes following a due diligence audit by Deloitte & Touche, which had showed that the group could be burdened by a reduction of between Kc 4.6 billion to Kc 6.8 billion in revenues in the next few years. This reduction could in part be "attributed to poor business decisions".

The official picture given is that Unipetrol faced potential risks from Chemopetrol's "over-optimistic outlook" for product prices in the petrochemical industry. There are numerous other factors involved in the recent concerns of Unipetrol, including losses in Belarus of Kc 130 million from certain operations. Despite concerns, Unipetrol officials have stated that the audited consolidated net profit for 1998 should not differ from the preliminary figure of Kc 1.81 billion. Furthermore, the company is maintaining its 1999 forecast of a Kc 3 billion pre-tax profit and revenues of Kc 51 billion. However, this target may need to be reviewed after the first quarter results in which Unipetrol reported an unconsolidated pre-tax loss of Kc 28 million.

Central Europe-currencies May 24th 1999

Country	Currency	\$1=	EURO =
Czech Republic	Koruna	35.8215	37.8114
Hungary	Forint	236.820	249.975
Poland	Zloty	3.8380	4.1568
Slovakia	Koruna	44.5050	46.9773

In Hungary, minority shareholders staged an overturn of the management at TVK's AGM at the end of April, removing and replacing top personnel. The reasons for these changes were caused largely by TVK's results for 1998, considered to be disappointing in contrast to 1997. The movement to change the

management was led by Croessus Central European Restructuring Fund, which owns less than 20% of TVK but is still the largest shareholder in the company. In 1998, TVK profits fell by 31% to Ft 11.7 billion with global prices of thermoplastics in sharp decline from the previous year.

The first quarter results have not shown signs of an operational upturn for TVK. A 40% fall in net profits in Q1 1999 against Q1 1998 have fuelled concerns that its near term prospects will remain weak. Feedstock costs have been higher in the past two months and these increases have not been matched by higher numbers for derivatives, such as polyethylene and polypropylene. For the period January-March 1999 TVK reported that net group earnings fell 40.3% to Ft 2.53 billion. However, total sales' revenue rose to Ft 25.66 billion from Ft 22.32 billion. The main issue facing TVK is that the prices of ethylene, propylene and polyolefins, are expected to remain relatively weak. At the same time higher prices for oil and naphtha are squeezing margins.

In the first quarter of 1999 the global price of naphtha decreased steadily in the first two months, before beginning to increase in March. The average international price of naphtha was \$90 per ton, compared to \$137 per ton in 1998. TVK's average price for naphtha purchased from MOL Rt was \$105 per ton, 33%

lower than in Q1 1998. Regarding imports, TVK purchased 8,200 tons of ethylene from Oriana at Kalush in Q1 1999 at an average price of DM660 per ton. These figures represented a 46% decrease in quantity against 1998 and a 29% decrease in price. 17,100 tons of ethylene were sold by TVK to BorsodChem at an average price of Ft 90,850 per ton compared to 15,500 tons at Ft 108,500 per ton in 1998. This decrease occurred not only due to the reduction in the West European contract price of ethylene but also the devaluation of the Hungarian Forint.

The ethylene utilisation rate in the first quarter was 115.4%. Net sales' revenue from olefin products was Ft 3,504 million, contributing a 13.7% share to the total sales' revenues of the group. The cracker at Tiszaujvaros has completed its expansion to 350,000 tpa of ethylene, which will help to reduce dependency on purchases from Kalush.

TVK Olefin/Polyolefin Production- (unit-tons)		
Product	Q1 1998	Q1 1999
Ethylene	75,100	82,500
Propylene	41,800	42,100
LDPE	27,300	26,000
HDPE	46,500	46,800
Polypropylene	36,500	33,300
Source : TVK		

In terms of thermoplastics, sales' revenues from polymers contributed 45% to TVK's total sales in the first quarter. This figure was 66% a year ago, which indicates the direction of TVK's production and marketing strategy. The lower capacity utilisation for LDPE was due to lower volumes from Kalush, where Oriana is in the throes of appointing a new management team. Polypropylene production was down owing to lower utilisation at one of the units due to tactical reasons.

Aside production operations a major challenge facing TVK this year is the integration of the Austrian packaging company Unterland. The acquisition is part of TVK's downstream strategy. The acquisition of Unterland was completed at the end of last year. In the first quarter Unterland saw a Ft 354 million net loss. Unterland contributed only 26% of TVK revenues, while taking up 32% of costs, and was thus a prime factor in a 36% rise of TVK's direct sales' costs to Ft 19.36 billion. Short term negative results have raised questions over the sense of acquiring Unterland, particularly as the turnaround and integration of the company is likely to be a long process. However, TVK is convinced the Unterland acquisition will pay off and expects that it would make a modest Ft 180 million profit this year. This will be after TVK streamlines operations, including the reduction from 8 from 14 the number of products that Unterland produces. Unterland accounted for consumption of 4% of TVK's polymer sales in the first quarter.

As far as the share price is concerned uncertainty is expected to surround TVK's largest investor, the Croesus Central European Securities Fund. Croesus has said TVK's strategy of cost cutting and expansion will stay the same, although it wants the board to have a larger say in company decisions.

In Poland, Petrochemia Plock SA and Centrala Produktow Naftowych SA reached agreement in May to merge. Both companies are 85% state owned, with employees holding the remaining 15%. The government has pushed forward the merger to set up a company that is attractive to investors. 30% of Polski Koncern Naftowy is planned for sale in November this year through an initial public offering in Warsaw and London. The Polish government will open the energy market fully to competition by eliminating duties on imported oil on January 1, 2001.

Polski Koncern Naftowy (PKN) intends to spend around zł 2.5 billion on the modernisation of its distribution network over the next three to four years. The Government Economic Committee (KERM) believes that the prospectus for the public offering will be ready at the beginning of August. PKN will officially begin operations on July 1, 1999.

PVC BorsodChem encountered a downturn in profit performance in the first quarter of 1999, consistent with other major chemical companies in the region. BorsodChem's downturn was attributed to the effect of regional economic crises, including events in Russia last year which had an indirect effect on market conditions.

Significantly, Q1 1999 prices of PVC remained at low levels which had a major impact on the company's profitability. There is a theory that the decrease in the ethylene price this year has had a favourable impact on cost structure of PVC resin production. However, as BorsodChem points out probably only the most cost effective Central European producers could have benefited from these lower costs.

PVC resin prices in Central Europe have been under pressure since last November through to April, although there have been more positive signs of late. An average pre-tax profit of 12.4%, in proportion of sales' revenues, was attained by BorsodChem during the first quarter of the year.

With PVC prices evidencing signs of moving upwards the expectations for the second quarter are better. In response to the weak market climate in the first quarter BorsodChem suspended PVC production between

January 1 and February 8. However, PVC output was still higher in the first quarter of 1999 against 1998, due to the increase in PVC capacity. The imbalance between PVC and VCM output continues to put some degree of pressure on BorsodChem to find alternative supplies of VCM.

BorsodChem's Product Income		
	Q1 1998	Q1 1999
	Ft million	Ft million
PVC resin		
Domestic	1,273.9	762.9
Exports	6,565.1	5,197.1
Total	7,839.0	5,960.0
PVC compounds		
Domestic	531.6	512.7
Exports	692.2	466.9
Total	1,223.8	979.6
MDI products		
Domestic	126.2	32.2
Exports	3,020.9	3,522.6
Total	3,147.1	3,554.8
Caustic soda		
Domestic	428.9	722.1
Exports	610.0	543.5
Total	1,038.9	1,265.6
Plastic finished and semi-finished products		
Domestic	786.8	677.4
Exports	768.7	762.8
Total	1,555.5	1,440.2
Other products		
Domestic	922.5	986.2
Exports	1,554.2	1,343.8
Total	2,476.7	2,330.0
Total sales	17,281.0	15,530.2
Total domestic	4,069.9	3,693.5
Total exports	13,211.1	11,836.7
<i>Source: BorsodChem</i>		

Whilst caustic prices have been falling BorsodChem increased sales' revenues from caustic soda, due largely to the closure of the Budapesti Vegymuvek plant in March last year. This plant was closed due to a number of factors, including age, proximity to the city centre, plenty of domestic capacity, etc.

Total sales' revenues for BorsodChem fell to Ft 15,530 million in the first quarter this year against Ft 17,281 million in the first quarter last year for the same period in 1998. Pre-tax profits fell to Ft 1,929 million from Ft 2,945 million. During the first quarter of 1999 BorsodChem spent Ft 1.7 billion on capital expenditure, including Ft 200 million by subsidiaries within the consolidation group. At the end of the quarter the consolidated number of employees at BorsodChem totalled 3,468. Productivity of human resources was calculated at Ft 4.5 million per person/quarter.

BorsodChem is heavily orientated towards the export market. 76.2% of sales revenues in the first quarter this year were derived from shipments abroad. The major organisational developments to take place in the first quarter included an increase in the registered capital of BC Polska Sp.z.o.o. This was by z1 500,000, rising to z1 1,000,000 to become effective from January 1, 1999. Also a bid was made to the tender for a 51% stake in the Romanian chlorine producer Chimcomplex.

MDI/TDI In the first quarter, BorsodChem increased its production at Kazincbarcika of pure MDI. Strong demand and less cyclical pricing means that this product represents an important and growing outlet for BorsodChem. Furthermore, in order to move away further from PVC as a main source of income BorsodChem has confirmed plans to construct a new TDI plant at Kazincbarcika. This will cost approximately DM200 million and is planned to be onstream in 2002. Consumption of TDI in Central Europe is estimated to be increasing currently at a rate of 5.5-6.0%.

BorsodChem's Production (unit-kilo tons)			
	MDI	PVC	VCM
Q1 1999	10.049	64.022	50.480
Q1 1998	9.946	63.735	49.790
<i>Source: BorsodChem</i>			

Apart from meeting regional demand, the introduction of TDI into BorsodChem's product range will be part of the new product range reducing the dependency on cyclical commodities to about 60% of the company's revenues. One of the main contractors to the project will be the Japanese company Chisso Engineering Co.

Recycling/PET The Czech government is promoting the concept of recycling which may have direct or indirect effects on plastics' processors. In May, a voluntary agreement began between the Ministry of the Environment and the Czech Industrial Coalition on Packaging and Environment to support rubbish separation and recycling efforts in the Czech Republic. The agreement puts an official seal of approval on Ekocom, a non-profit organisation founded by major packaging producers and fillers of packaging. It collects fees from its members and then uses these funds to support municipal rubbish reduction efforts. The agreement is an intermediate step moving the Czech Republic toward European Union standards. It also builds on Waste Act 125/97 which requires producers and fillers of packaging to recover 35% of packaging and implement a take-back scheme by 2001.

Packaging producers are faced with several options. They can develop their own recovery scheme, they can pay a fine of up to Kc 53 million, or they can join Ekocom and pay an amount based on the volume and

weight of the packaging that they produce. By already joining this campaign, companies such as soft drink producers Coca-Cola, Toma, or Tetra-Pak have averted fines.

The concept of recycled plastics in Central Europe was low profile until several years ago but now such products are being used for bottling alcohol. The idea of using recycled PET resin for beer has been circulating in West Europe for some time, and the Nova Paka brewery is the first Czech company to market beer packaged in 1.5 litre PET recyclable plastic bottles. Wine has already been sold in plastic bottles in the Czech Republic and the Nova Paka brewery has simply followed this trend. Nova Paka began selling beer in PET bottles in December 1998, starting off with a small run of 21 hectolitres. In April, the brewery bottled 1,200 hectolitres in PET bottles. The move to PET came as production at the brewery sank to a 25 year low in 1998. Aiming to improve on its 48,000 hectolitres low point, Nova Paka production for 1999 is estimated to reach 70,000 hectolitres. The goal is to have 20% of this production in PET.

Nova Paka uses a PALI bottle-filling machine which can be switched between glass and PET bottles. The claim is that PET has a substantial cost advantage over cans, with the aluminium top being 50% more expensive than that for glass or PET. However, the unit cost of the PET bottle is comparable to that of an aluminium can, with the primary difference being that a PET bottle holds 1.5 litres versus the 0.33-0.5 litres in a can. Pivovar Nymburk has also been bottling beer in PET for about three months. Other outlets for PET include mineral water, with some producers such as Podebradka and Karlovarske Mineralni Vody are increasingly sold in PET instead of glass bottles.

In fact, due to the growth in PET the Podebradka mineral water company has reduced the deposit on its glass bottles by three quarters, from Kc 4 to Kc 1, in response to a growing surplus of glass bottles the company has in storage. Glass bottles have accumulated due to growing demand for mineral water in plastic PET bottles, which increased 26% year-on-year in the first quarter of 1999. Conversely, sales of water in glass bottles were down 14% in the same period.

Plastics Central Europe has seen a sharp decline in the demand for compounds, plastic finished and semi-finished products in the first quarter this year. The Czech economy has been in recession, whilst the rate of growth in Poland has slowed down in relation to last year.

In Hungary, the plastic processing group Pannonplast's has survived regional market trends reasonably well, with sales' revenues and net income in the first quarter lagging only slightly behind the seasonal budget. This is mainly due to good sales in the domestic and export markets, although more modest than in 1998. Pannonplast as a group has maintained its efficiency and despite weak market conditions managed to improve margins.

Polish Chemical Output (unit kilo tons)		
<i>Product</i>	<i>Jan-Mar 99</i>	<i>Jan-Mar 98</i>
Plastics	237.8	217.9
PVC	64.7	72.5
LDPE	40.9	45.2
Caustic Soda	89.8	98.1
Pesticides	9.6	9.3
Lacquers	58.2	60.1
Detergents	66.3	86.8
Nitrogen Fertilisers	382.0	426.0
Phosphate Fertilisers	163.6	168.5
Synthetic Fibres	17.4	27.4
Synthetic Rubber	23.1	26.6
Total Oil Processed	3,817.0	3,660.0

Pannonplast continues its intensive investment activity, although taking more moderate steps than in 1998. In the first quarter of 1999, the subsidiaries of the group spent Ft 647 million for the purchase of fixed assets, in addition to product improvement and technology development.

Pannonplast's sales' revenues in Q1 1999 totalled Ft 3,963, 4% higher than that in the same period of 1998. However, the sales' revenue is lagging behind the seasonal budget of the group. The reasons for lower turnover in construction were the unfavourable weather conditions in January and February, and also the ensuing floods. The

relative under-performance of the packaging sector is attributed indirectly to the slowdown in export activity to Russia. Construction related materials (insulation films and foam) have not performed up to the expectations due to relatively weaker demand in West Europe. The company's export ratio was 36.5%, roughly unchanged from Q1 1998. About two thirds of the total export is still directed towards West European markets.

Due to signs of a recovery since March, and the increasing indications of demand received by the subsidiaries, Pannonplast believes that the modest first quarter performance is temporary. Hence, it shouldn't seriously jeopardise the achievement of the company's annual goals. Amongst the organisational changes within the company Pannonplast purchased the 50% stake in LG Pannon Plc from LG Chemical. By obtaining 86,400 shares with face value of Ft 8.800 each, Pannonplast now holds 100% of the stocks. 1998 sales' revenue of the joint venture was Ft 2.143 million, the export ratio is 50% out of which 70% is destined for West Europe. After the purchase from LG the subsidiary's new name is Folmont Plc. Folmont

Plc is planning to increase its activity in the field of flexible PVC films manufactured for stationery use, in addition to various insulation applications.

SOUTH EAST EUROPE

The side effects of the Kosovo crisis and NATO bombing of Serbia are having major effects on the economies of South East Europe. Bulgarian and Romanian shipments to West Europe, via the river Danube, have been brought to a standstill. The Bulgarian company Sviloza, which was recently privatised successfully under the guidance of Arthur Andersen, is now facing a very difficult position whilst access through Serbia is prevented. The Bulgarian pharmaceutical company Biovet has had its privatisation deal with ICN quashed due to the crisis in Serbia. ICN withdrew its bid of \$13.6 million for a 54% stake. Romania's economic performance has been badly affected by the crisis. In addition to lost markets in Serbia, Romanian companies had paid in advance for products from Yugoslav chemical plants which have now been destroyed, or at least disabled by NATO bombing.

Oil refining On April 20, a joint Russian-Bulgarian company entitled Balkan Oil Consortium was established, with two of its goals to participate in the privatisation of Neftochim and the construction of the Bourgas-Alexandropoulos oil pipeline. The Russian companies included in the Balkan Oil Consortium are Slavneft, Transneft, Rosneft, Orel Oil, and Stroytransgaz, and the Bulgarian companies include Usos Petroleum and Oil Holding Group. It has been suggested in the Russian press that the Balkan Oil Consortium has been created with the purpose of acting as a link for the processing of Caspian crude from Kazakhstan.

At Bourgas, Neftochim experienced losses in the first quarter which the unions have speculated are deliberate in order to reduce the bidding price for the company. However, there are a number of plausible factors which can account for the negative financial performance. The closing date for submission of bids for a 58% stake in Neftochim is June 7. LUKoil has stated that its interest in Neftochim depended on how successful it was with the acquisition of gasoline retail network Petrol AD.

However, YUKOS now seems to have acquired control of Petrol which may affect LUKoil's position. The deal for Petrol with YUKOS is awaiting approval by Bulgaria's anti-monopoly office. The second refinery in Bulgaria, Plama at Pleven, has run into more financial difficulties despite having recently been bought by new owners. The refinery resumed operations in January after being idle for almost 3 years.

South East Europe-currencies May 24th 1999

Country	Currency	\$1=	EURO =
Bulgaria	Lev	1,852.6	1,953.4
Croatia	Kunar	7.2131	7.6137
Macedonia	Dinar	57.0201	60.3423
Romania	Lei	15,525	16387.4
Slovenia	Tolar	183.73	193.936
Yugoslavia	New Dinar	10.9231	11.5299

In Romania, the oil company SNP Petrom is being advised on privatisation by a ABN Amro led consortium. SNP Petrom will be assessed as an integrated oil company and the privatisation consortium will seek strategic and portfolio investors. Petrom produced 6.3 million tons of crude in 1998, compared to 6.3 million tons in 1997. Production for 1999 is forecast at 6.24

million tons. Last year Petrom, at its two refineries at Arpechim and Petrobrazi, processed 3.69 million tons from domestic output and 1.34 million tons from imports.

Of other refineries in Romania Petromidia SA at Constanta processed 2.517 million tons of crude in 1998, of which 85% was sourced from imports. Petromidia also produced 27,599 tons of polypropylene in 1998, of which 5,679 tons were exported.

Yugoslavia is counting on Russia to follow through with its pledge to ignore NATO's oil embargo and ship oil products to the country, whose own refineries at Novi Sad and Pancevo have been destroyed. Romania acceded to the embargo on oil products to Yugoslavia in early May. In 1998, Yugoslavia bought 601,000 tons of crude oil and 141,000 tons of oil products from Russia. However, this was just a quarter of the 2.5 million tons originally agreed between the two governments. Russian crude represented less than a quarter of total Yugoslavian crude imports last year, as estimated by the US Department of Energy.

Most of the oil came through the Adria pipeline from the Adriatic seaport of Omisalj in Croatia eastwards into Serbia, though the flow through that line was halted on March 28 after NATO bombing. Another option by barge on the Danube River and by rail and road from Romania. Even before the NATO air strikes, Serbia had trouble meeting its oil needs. China's Sinochem cut off shipments to Serbia through the Adria pipeline in late 1998 after the nation failed to make payments required for the oil.

Olefins In April, Neftochim announced a package of measures for cutting production costs by closing loss making units at Bourgas, and also reducing maintenance expenditure. The polymer complex has had maintenance costs cut by 30-40%, which may have repercussions on the operational

efficiency in future. The rubber and latex plant is now focusing solely on latex production. The Ethylene 250 unit has been shut temporarily and replaced by the smaller Ethylene 150 unit due to the reduced needs for ethylene in the current market environment. Some derivative units have been affected. Funds for maintenance have also been cut for ethylene capacity. The ethylene oxide plant has been down for maintenance whilst the phenol unit has been idle due to a lack of demand from Agrobiochim.

HIP Petrohemija at Pancevo has recently submitted its report to the Serbian Ministry for Environment, and other government agencies, on the consequences of April's NATO bombing of the plant facilities. About 20 tons of fluid chloride from the destroyed and damaged tanks of the chloralkali plant were unleashed and dispersed into the atmosphere, whilst the report stated that about 3,000 tons of alkaline from another damaged 6,000 ton tank flowed into the Danube River. In addition, a large amount of mercury spilt out and flowed into the Danube River from the plant's tanks, which contained 100 tons at the time of the attack.

As for the VCM plant, about 1,400 tons of EDC and 800 tons of 33% hydrochloric acid spilt out from the damaged tanks and flowed into the Danube River. A cloud of VCM had hovered above the town and its surroundings for several hours before disappearing into the atmosphere. At one of 10 measuring sites in Pancevo, only three to four kilometres away from the petrochemical complex, the local Health Protection Institute measuring equipment recorded an enormous concentration of this VCM at 8:00 a.m., seven hours after NATO bombed the plant. The concentration was as much as 10,600 times above the so called technologically tolerated limit value, the report concluded.

Fertilisers Despite receiving new orders this year the Chimco fertiliser complex has been forced to stop urea production due to the crisis in Kosovo. The closure of markets in Serbia, Macedonia, Croatia and Montenegro have made continued production operations unviable, reducing total market opportunities to about 3,000 tons per month. Regarding Chimco's long drawn out privatisation, there are several candidates, including Daewoo again, but the only certain bid has come from a management/employee company created by Chimco.

Norsk Hydro appears to have rethought its strategy towards the purchase of Agropolychim due to the inability to reach agreement with Bulgargaz over the price of gas. Norsk Hydro has been in negotiation for Agropolychim for a price of \$1, but this also includes taking on the company's debts and providing investment for modernisation, etc. Unless agreement can be found over the price of the plant's main raw material gas it is unlikely to go ahead.

Transport Port Varna plans a programme of modernisation and to expand the number of terminals in the next few years, including a liquid chemical terminal at Devnya. The Belgian company ADPO plans to invest \$15 million in the new chemical terminal. In general, freight through Varna has been in decline in the past two years, due partly to the sharp decline in fertiliser shipments from Chimco at Vratsa and Agropolychim at Devnya. In 1998, traffic fell to 3.1 million tons from 4.6 million tons in 1997. Of the chemical companies, only Solvay Sodi of Devnya has remained stable, exporting around 750,000 tpa of soda ash.

BALTIC STATES

Mazeikiu Nafta processed 1.164 million tons of crude oil in the first quarter of 1999, down by 30% year on year from 1.669 million tons in 1998. Mazeikiu Nafta was forced to shut down this year almost for three weeks after it ran out of Russian crude at the end of January 1999. In March, the plant started working at full capacity. The refinery planned originally to process more than seven million tons of oil this year, but a shortage of crude in Russia and a cut in exports have reduced expectations.

Baltic States-currencies May 24th 1999

Country	Currency	\$1=	EURO =
Estonia	Kroon	14.819	15.6422
Latvia	Lats	0.5947	0.8277
Lithuania	Litas	4.0015	4.2228

In late May Mazeikiu Nafta suspended production again due to low supplies of crude oil from Russia. The refinery has received 134,000 tons of crude oil from Russia in May after being promised 563,000 tons. The view from the Lithuanian government is that the Russian side's motivation for the move is

the start of sowing season, which had increased the need for crude oil at the Russian refineries. However, there is also a feeling that Russian oil companies are unhappy about US company Williams becoming a strategic investor in Lithuania's oil sector.

Following the delayed investment of the Williams in the Lithuanian oil sector, the government is to consider new proposals on the restructuring of Mazeikiu Nafta. It has been proposed that Williams was granted a right to purchase another 33% in Mazeikiu Nafta on top of the 33% stake that Williams is to acquire according to the letter of intent signed last year. Under the amendments, the additional 33% of shares will be sold in two blocks. The Lithuanian government and Williams International plan to sign contracts on

investment into Mazeikiu Nafta by June 30. The law requires that state should retain at least 25% of shares in Mazeikiu Nafta after the sale of the 66% stake to Williams.

The Mazeikiu Nafta oil refinery, the Butinges Nafta oil terminal and the Naftotiekis pipeline company, merged into the concern in late 1998. Last year Williams signed a letter of intent with the Lithuanian government to buy a 33% stake in Mazeikiu Nafta for \$150 million. The parties have repeatedly postponed signing of the contract although there now seems to be good progress, with Williams having granted approval of the transaction under the terms agreed upon with the Lithuanian government in April.

COMMONWEALTH OF INDEPENDENT STATES

Russia

Russian industrial output in the first quarter this year was only 2% down against the January-March 1998 period, with production in the chemical and petrochemical industries up by 6%. A number other industrial sectors also saw improvements, attributed to the effects of devaluation which has made some exports extremely profitable. The sharp decline in imports has, moreover, resulted in large scale import substitution which has been beneficial to many industries. This upward turn for some sectors does by no means indicate that the general economy is any easier, but it could be said to provide a degree of light at the end of the tunnel.

Oil refining

The Russian government has reproached the Russian oil companies as "not being capable of either feeding their own refineries, or providing for their modernisation". Over the past decade refining volumes have decreased sharply below the threshold of around 200 million tpa of crude, which is considered necessary for Russia to have a secure energy supply. Major oil holding groups such as SIDANKO, Rosneft and Sibneft have been cited as the major under-providers of crude for their refineries.

Russian crude oil and product exports are now running at such high levels that domestic products shortages are starting to be evident. Higher global prices have encouraged oil producers to export more product. Domestic naphtha prices are rising, in line with gasoline price increases. Recent signs of less refined product includes a serious shortage of gasoline in St Petersburg in May, where prices doubled overnight and long queues formed at filling stations. Kinef at Kirishi is believed to be interested predominantly in the export market which results in product shortages in the St Petersburg region.

LUKoil Holding's (excluding subsidiaries and affiliates) made pre-tax income in 1998 amounted to 3.209 billion roubles. Taxes and similar state duties totalled 1.142 billion roubles, or 35.6% of the pre-tax income. Income, subject to distribution in 1999, was 2.067 billion roubles. In 1998, LUKoil Holding's total investment amounted to 1.420 billion roubles, including 583 million roubles from earnings and 837 million roubles from borrowed financing. Investment was basically channelled to the refurbishment of upstream and downstream capacities, construction of retail outlets, introduction of modern communication systems and facilities, in addition to expenses related to foreign projects.

In 1998, LUKoil stock turnover in the Russian Trading System (RTS) amounted to \$2 billion, or 23% of the total RTS turnover. According to Nikoil Registrar, changes in ownership rights for 336.3 ml common and preferred shares have been reregistered. LUKoil shareholders comprise 85,000 Russian and foreign individuals and legal entities. 26.6% of shares (29.9% of voting rights) are owned by the government of the Russian Federation.

Petrochemicals

The Russian gas monopoly Gazprom is at present finalising the creation of a petrochemical holding company in Russia. Such a creation may have important connotations for the industry, and thus there is cause for a degree of optimism set against a rather volatile political environment. The new holding company is expected to control two thirds of the country's production of propane and butane, estimated now at about 750,000 tpa, and a third of Russia's 680,000 tpa rubber production.

Accordingly, Gazprom intends to co-ordinate the development of the new company, which will be set up on the basis of the gas and petrochemical company SIBUR, and the Tobolsk Petrochemical Combine in the Tyumen Oblast. Gazprom, the new owner of SIBUR, and the Tobolsk plant have a common view on developing the petrochemical industry in western Siberia. Gazprom already has several trust stakes in petrochemical producers (i.e., Salavatnefteorgsintez), which it has acquired in exchange for outstanding debts for gas supplies. However, efforts to create a dedicated company represent the first tangible sign that Gazprom is committed to entering the petrochemical industry.

This new strategy is based largely on the control of SIBUR, which is one of the biggest producers of raw materials for the Russian petrochemical industry. SIBUR's legal address is Omskaya Street 1, Nizhnevartovsk, Tyumen Oblast, 626440, Russia. Its production activities consist of oil, gas, condensate,

and other mineral resources, refining and transportation; oil and gas processing; and production of petroleum products. Companies in which SIBUR has shares include OAO "Sibneftegazpererabotka" (38%), OAO "Perm Gas Processing Plant" (38%), OAO "NIPGazpererabotka" (38%), and OAO "Sorbent" (38%).

OAO "Salavatnefteorgsintez" Price List		
May 1999		
Product		Roubles/ton
Normal pentane fractions		1,680
Isopentane fractions		1,860
Pentane-isopentane fractions		1,800
Isobutane		1,032
Normal butane		1,056
Butylene-butadiene fractions		1 560
LDPE		16,800
Polyethylene film		17,400
Ethylene		4,200
Polystyrene high impact		17,400
Polystyrene other		17,400
ABS		18,000
Toluene		4,440
MEG		6,600
DEG		9,240
TEG		5,760
Monoethanolamine		8,580
Diethanolamine		10,800
Triethanolamine		7,200
Benzene		4,560
Dimethylamine		10,320
DOP		19,200
DAF		15,600
Phthalic anhydride		8,400

In total, SIBUR's main assets comprise 9 gas processing plants in the Siberian cities of Surgut, Gubkinskiy, Nizhnevartovsk and Krasnoleninsk, 13 gas compressor stations and 5,000 km of oil and gas pipelines. Gazprom's interest in SIBUR started to become prominent last year when in February the Russian State Property Ministry announced plans to sell shares in the company.

The controlling stake of SIBUR was sold in December 1998 in a privatisation tender for just \$20 million, to a previously unknown group called Gaspetrochemical Company. SIBUR's new owners chose to stay in the shadows until Gazprom revealed recently that the gas giant was very close to creating a company designed along the same lines as BASF. Gazprom is no longer concealing the fact that Gaspetrochemical Company, which also controls Tobolsk Petrochemical Combine (TPC), is a "structure friendly towards us." TPC is one of Russia's largest petrochemical companies, with a large gas fractionating plant. The new holding company being created by Gazprom will also own the gas condensate stabilisation plant in Surgut.

Gazprom stated at the end of April that "our aim is not to let the petrochemical industry in Russia die. It has

been so fragmented in recent years that all petrochemical plants have suffered gas shortages, have not been paid for their production, and have been completely unprofitable". The new owners of the petrochemical holding company plan to control the whole production process "from the wellhead to the sales counter". "Now, when we control the majority of gas processing plants, we'll try to abolish the system of intermediaries, and supply raw materials only if we are guaranteed to be the owner of the finished products".

Gazprom has not yet acquired big stakes in synthetic rubber plants, but claims that it has plans to do so in future. The group is already working with most of Russia's large synthetic rubber plants, including the huge plants in Tatarstan and Bashkortostan, an association of over 10 rubber plants in the Volga region, and petrochemical plants in Yaroslavl and Nizhniy Novgorod in central Russia.

This co-operation will allow SIBUR to concentrate this year on rubber and tyre production, planned to account for 46% of output, while butane and propane will account for 15%, organic chemical products 21%, and propylene and polyethylene 11%. Even if the export market is not Gazprom's main target, this year the company plans to export approximately \$300 million worth of rubber, LPG and plastics. The holding company is aiming at a turnover of \$1 billion in 1999.

Gazprom's progressing interest in the petrochemical industry follows an agreement with BASF AG at the end of March, intended by both sides to "open a new era of co-operation". Under the agreement BASF's fully owned subsidiary Wintershall will start exploration of natural gas and oil, gaining access to the world's largest deposits of those natural resources. Until this year, BASF's co-operation with Gazprom has concentrated on deliveries and sales of natural gas in Germany and East Europe through their two joint ventures WINGAS GmbH and WIEH.

In the feedstock markets a Czech consulting company Eastconnect is seeking producers of propane, butane and propane-butane in CIS for import into the Czech Republic on a long term basis. Further details: Josef Dragoun, Eastconnect, E-mail : east@telecom.cz. A Russian buyer is seeking heptane and hexane-heptane fractions in quantities of 450-500 tons per month for delivery to Tomsk. The interested buyer is: Aleksander Maier, Marketing, Investment & Financial Corporation, Tel +7 3822 555578, Fax +7 3822 555578. Propane-butane fractions are being offered by one source in the Tyumen Oblast in quantities of 2,000 tons at \$35 per ton. Further details: Mr Khalikov, Tel +7 3473 257492, E-mail: navigatr@str.ru.

Polyethylene Whilst the 1990s has been characterised as a period of growing dependency on export activity for Russian polyethylene producers, the devaluation of last year has thrown up new opportunities in the domestic market. True, barter trade may be less attractive than dollar trade which

means that exports will continue to perform an important role for producers. However, the domestic market has become an easier place to conclude sales since last year.

1998 data for polyethylene is still not available but in 1997, Russia produced 549,700 tons of polyethylene, down 1.04% year-on-year. In the same year, it exported 272,200 tons of this product (down 10% year-on-year) for a sum of \$192.1 million. Domestic consumption was 340,200 tons, up 12.3% compared to 1996. In 1997, Kazanorgsintez produced 334,700 tons of polyethylene, i.e., 60.89% of Russia's output (85.1% for HDPE and 46.0% for LDPE).

In the markets, Azhur is offering LDPE produced at Tomsk Petrochemical Combine at 12,500 roubles per ton, including VAT, on an EXW basis. Further details: Sergey Bratushev, Azhur, Tel/Fax +7 3822 21-42-38, 21-13-72, E-mail: ajur@mail.tomsknet.ru. Export prices for LDPE from Russia are being quoted in the range of \$540-\$560 per ton on a DAF basis. HDPE prices in the domestic market have been climbing to levels close to 16,400 roubles per ton in Bashkortostan.

Trading company Kontur is offering LDPE at 15,500 roubles per ton, inclusive of VAT but requiring 100% prepayment. Delivery requires 5 to 7 days. Further details: Mikhail V. Varganov, OOO "Kontur", E-mail: posparta@mail.ru. Enquiries for LDPE in Russia are being received from Central Europe but finding a profitable price level after delivery costs represents the main problem. Buyers in Central Europe are generally not interested in EXW prices from Russian plants.

Olefin derivatives Styrene is being sought by trading company Paritet for delivery to Bashkortostan, almost certainly to Salavatnefteorgsintez for the production of polystyrene. Forms of payment offered include veksel (promissory notes). Details: Kiril Badikov, Paritet, Tel/Fax +7 3472 373320, E-mail: paritet@ufanet.ru.

Bashkirian trader SKS is offering products from Salavarnfteorgsintez at discount prices. Products include ethylene glycol, DEG, butanols, isobutanols, phthalic anhydride, etc. Further details: Pavel G. Silantyev, OOO "SKS", Tel +7 347 902 21234, Fax +7 34763 33859, E-mail: pasha@salavat.bashnet.ru. Numerous traders are springing up with supplies of product from Nizhnekamsk. Regarding prices, ethylene glycol and styrene from Nizhnekamskneftekhim are currently priced at 3,500 roubles and 3,600 roubles per ton respectively. The leather products' company Schill and Seilacher Group in Hamburg has been looking for Russian produced polyethylene glycol in volumes of 4,000 tons, and also phenolic resins.

In the PVC sector, prices have risen above the 8,000 roubles per ton range. Leading plastics' company OAO "Uralkhimplast" is seeking supplies on a cash basis of PVC resins (500 tons per month), phthalic anhydride (500 tons per month), and naphthalene (300 tons per month). Details: Sergey I. Shadrin, OAO "Uralkhimplast", Tel +7 3435 27 21 16, 23 76 33, Fax +7 3435 32 32 22, E-mail: ntuchpl@ntuchpl.unets.ru. Prominvest is seeking PVC in volumes of 150-200 tons per month at price levels of 8,500 roubles per ton. ZAO "Neftekhimik-Oxo" is seeking a supplier of PVC in volumes of 200 tons per month. Enquiries to Andrey Bikov, ZAO "Neftekhimik-Oxo", Tel +7 3422 908 620, Fax +7 3422 908 116, E-mail: oilchim@pi.ccl.ru.

Propylene derivatives Following last month's protocol on Nitron LUKoil has stated that the Saratov region will eventually see an efficient chemical plant with much higher occupancy rates than seen in recent years. In 1998, acrylonitrile production totalled 36,000 tons, compared to 39,450 tons in 1997, and phenol production was 7,000 tons, compared to 11,000 tons in 1997. The control of Nitron will help LUKoil to strengthen its own petrochemical divisions, contributing to the improvement of the company's operating and financial performance.

In the OXO alcohol export markets, Asian end users report continuing availability of Russian n-butanol at below \$350/ton CFR out of Perm and Salavat. In the first quarter China imported 19,029 tons of normal butanol from Russia, against 6,602 tons in Q1 1998, and 8,823 tons of isobutanol, against 4,355 tons in Q1 1998. ZAO "LUKoil-Nizhniy Novgorod" is offering 120 tons of ethanolamines produced by AO "Sintez" at Dzerzhinsk, one of the leading producers of ethanolamines in Russia. Further details: Nikolai Konstantinovich, ZAO "LUKoil-Nizhniy Novgorod", Tel +7 8312 34-12-37, 30-43-48, Fax +7 8312 30-26-43, E-mail: ed@lucoil.nnov.ru.

Trading company Uralenergossintez is offering normal butanol and isobutanol from Perm in volumes of 2,000 tons per month. Barter conditions would be considered. Further details: Andrey Glukov, OOO "Uralenergossintez", Tel +7 3422 908 920, Fax +7 3422 908 116. Butyl acetate, which is produced at Ashinsk in the Chelyabinsk region, is being offered by Uralenergossintez at 9,500 roubles per ton, inclusive of VAT.

Polypropylene prices from the Moscow refinery are in the range of 14,200 roubles per ton. Trade industrial company Aziya Eksim is seeking to buy on a regular basis 100 tons per month of polypropylene for the production of polypropylene sacks. Delivery is to be made to Baku. Hard currency will be offered. Further

details: Akhmed Khadzhi, General Director, Aziya Eksim, Tel/Fax +7 8922 612569. The plastics' processor IKS in Moscow is offering polypropylene sacks for chemical fertilisers, sugar and other food based products. Further details: Sergey Kabanov, Commercial Director, IKS, Tel +7 095 237-7888, Fax +7 095 237-6668, E-mail: polix@pol.ru.

Butadiene OAO "NK PCC" (Novokuibyshevsk Petrochemical Combine) is examining the reconstruction of production facilities and the introduction of new product lines. UOP has already conducted an overview of the requirements for the complex, whilst Technip has developed a feasibility study for the whole project. The total amount of investments for the programme of modernisation and expansion is estimated at \$110 million.

These plans have included the construction of the company's own additional power blocks supplying steam and electric power. There are also plans for the rejuvenation of co-operative links among the petrochemical and oil refining enterprises located in the Samara Region.

OAO "NK PCC" produces propane, isobutane, n-butane, isopentane, n-pentane, butadiene, para-tret-butylphenol, dipheniloxide, catalysts, and isoprene. The main domestic consumers of OAO "NK PCC" products include Togliatti Sintezkautschuk, Yaroslavl Sintezkautschuk, Volzhsky Sintezkautschuk, Yefremov Sintezkautschuk, Nizhnekamskneftekhim, Novokuibyshevsk Oil Refinery, and the Samara Factory of Synthetic Alcohol.

To increase the competitiveness of products and functions, OAO "NK PCC" has developed a complex multistage programme of enterprise modernisation. Amongst its goals OAO "NK PCC" is considering a project for MTBE production. The project includes the reconstruction and redesign of butadiene production units to produce MTBE. Butadiene capacity at Novokuibyshevsk stands at 132,000 tpa, and uses technology designed by NPP "Yarsynthes". Implementation of the project will enable the company to resolve a number of ecological problems (i.e., replacement of toxic ingredients in benzene structure) and social problems (i.e., creation of 360 new jobs). The total cost of the project is estimated at \$13 million with a payback period of 18 months. For further details about the company: A V. Arefyev, OAO "Novokuibyshevsk Petrochemical Combine", 446214, Samara region, Novokuibyshevsk, Tel +7 846-35 3-48-00; 3-47-51; Fax +7 846-35 3-49-02.

CIS- currencies May 24th 1999

Country	Currency	\$1=	EURO =
Azerbaijan	Manat	3950	4,199.42
Belarus	Rouble	315,000	332,438
Kazakhstan	Tenge	119.35	125.98
Russia	Rouble	24.8131	26.1935
Ukraine	Hryvnia	4.0100	4.2338
Uzbekistan	Sum	570.00	601.664

Sintezkautschuk at Yefremov, which is Russia's largest exporter of synthetic rubber, posted a downturn in 1998 in pre-tax profits of 46.5% against 1997. However, gross sales increased 21.6% to 417 million roubles in 1998. Physical output amounted to 56,000 tons. Outstanding debts grew 18.8% to 177 million roubles, although the company does not owe anything to the state budget. Sintezkautschuk produces polybutadiene and butyl rubber.

Chlorine AOOT "Kaustik" at Volgograd is offering chlorine; caustic soda (100%); sodium hypochlorite; ferric chloride; PVC resin and vinyl chloride copolymers. Other products include methyl chloride; freon-11 (trichlorofluoromethane); freon-12 (dichlorodifluoromethane), vinylidene chloride; plant protection agents, etc. Further details : Igor V Silkin, AOOT "Kaustik", Tel +7 8442 68-34-24, Fax +7 8442 68-39-95, 68-07-91, E-mail: kaustik@advent.avtlg.ru.

OAO "Usolyekhimprom" has surplus availability of PVC resins and epichlorohydrin, etc. Further details: Aleksey Kylikov, Marketing, Usolyekhimprom, Tel +7 39591 54126 Fax: +7 39543 43004, E-mail: kylikov@mail.tehserv.irtel.ru. Uralkhimprom is acting as a trading representative for caustic soda sales from Kaprolaktam at Dzerzhinsk and Kirovo-Chepetskiy Chimkombinat. Further details from Aleksey V. Korablev, Uralkhimprom, Tel +7 3432 707239, Fax +7 3432 707240, E-mail: chim@diapup.mplik.ru. Uralkhimprom is also offering urea at 1,800 roubles per ton, caustic soda at 1,330 roubles per ton, epichlorohydrin at 17,500 roubles per ton, and PVC for protecting pipelines from corrosion at 23,500 roubles per ton.

Derzhavniy is offering 2,500 tons of caustic soda 46% produced at Khimprom at Volgograd, at a price of 1,050 roubles per ton. Details : Konstantin Mikhailovskiy, Derzhavniy, Tel +7 812 114 38 25, Fax +7 812 114 00 11, E-mail: mikhailovsky_k@yahoo.com. ZAO "Tekhresurs" is selling products from both Sayanskkhimprom and Usolyekhimprom in the Irkutsk Oblast. These products include PVC resins, caustic soda 46%, calcium carbide, hydrogen peroxide, trichloroethylene, epichlorohydrin, etc. Details : Aleksander Khalturin, ZAO "Tekhresurs", Tel/Fax +7 3951 54-41-49, 54-41-50. ZAO "Promsol-Sibir" has caustic soda available from OAO "Srednevolzhsky Zavod Khimikatov" at Chapaevsk. Details: Semen Sherman, ZAO "Promsol-Sibir", Tel/Fax +7 095 232-94-08, 232-58-10.

OAo "Usolyekhimpron" Price List**May 1999**

Product	Domestic Roubles/ton	*Exp \$/ton
Hydrogen peroxide	5,500	550
PVC	7,000-8,000	420
Epichlorohydrin technical	20,600	920
Epoxy resins	34,000	n/a
Chlorine liquid/railroad tankcars	1,200	n/a
Sulphuric acid	700-1,000	n/a
Caustic soda	1,700	100
Methyl cellulosolve	40,000	n/a
Calcium hypochlorite	5,600	n/a
Trichloroethylene	6,300	310
Calcium carbide	3,800	n/a
Domestic prices excluding 20% VAT		
*Export prices are shown at Malta station, East Siberian Railroad		

Prices for epichlorohydrin have been climbing to around 19,000 roubles per ton from at least one trader, produced either at Sterlitamak and Usolye-Sibirskoy. The product is available from a St Petersburg warehouse. Further details: Vladimir Abramov, Petrokhimproduct, Tel +7 812 248 24 55, Fax +7 812 542 29 95, E-mail: chemie@pcp.spb.ru.

OAo "Srednevolzhsky Zavod Khimikatov" (Srednevolzhsky Chemical Agents Plant) is one of the more recently established chlorine and caustic soda producers in Russia, having been set up on July 8, 1993. It is the legal successor of Chapayevsky Chemical Fertilisers Factory, founded in 1912. The main kinds of production and sales include plant protection agents, caustic soda and products of chlorine and

chlororganic compound processing, PVC plasticizers and adhesives, etc. The company occupies a leading position at the Russian market of plasticizers and adhesives for automotive industry, and sodium salt of monochloroacetic acid. Contact : E.I. Morkovkin, Director, OAo "Srednevolzhsky Zavod Khimikatov", Ul. Ordzhonikidze 1, Chapayevsk 446100, Russia. Tel +7 239 2-39-09, Fax +7 239 2-39-55.

Projects under consideration by OAo "Srednevolzhsky Zavod Khimikatov" include upgrading the chlorine and caustic soda facilities, using membrane technology. Other projects include the production of polyacrylamide (PAA). Polyacrylamide is used in mining, paper, metallurgical, textile, food, coal and oil refining industries for flocculation. The production unit planned will provide product with a basic substance up to 90%. The total cost of the project is estimated at \$15 million, with an estimated payback period of 72 months.

Other projects under review by Srednevolzhsky Zavod Khimikatov include the production of sodium salt of technical carboxymethylcellulose (COMC-T), and the production of bleaching and disinfectant agent "Belizna". COMC-T is used in oil refining and gas industries and the plans are to supply product for Gazprom, and also to create 70 jobs. Preliminary offers and preliminary studies have been made by German and Finnish companies. For the production of the disinfectant agent "Belizna" the existing German line, with a capacity of 6,000 tpa, has already reached its peak and productivity has started falling. The total cost of the project is estimated at \$1.923 million with a payback period of 24 months.

Aromatics

Benzene prices in Russia have risen to a range of 4,300 to 4,700 roubles per ton, creeping close to levels of \$200 per ton. In the xylenes' sector producers are not operating at high rates of capacity, with most of the orientation on exports and international prices weak. Orthoxylene produced at the Omsk refinery is available at a domestic price of 5,520 roubles per ton, inclusive of VAT but not transport. Further details: Aleksey Lyakovskoy, E-mail: mile@dialup.srbank.ru.

ZAO "ROSAVTO" is seeking paraxylene, preferably from Ufaneftekhim in Bashkortostan. Quantities sought are 200-500 tons per month, with a delivered price to Moscow of around 3,400 roubles per ton, including VAT. Further details can be obtained from Aleksey S. Salynikov, ZAO "ROSAVTO", Tel +7 095 924-9358, Fax +7 095 921-3550, E-mail: alexey@rosavto.transit.ru.

Aromatic derivatives

Despite lower caprolactam shipments from Russia to South Korea this year exports to China have increased. This means that overall volumes out of Russia are still strong in comparison to previous years. In the first quarter, exports of caprolactam to China totalled 17,764 tons compared to 3,655 tons in the same period last year. Supplies of caprolactam from Russia are claimed to be having a downward effect on pricing in Asian markets.

Chinese enquiries for chemical products from China Manzhouli international trading Co Ltd during May included calcium carbide, 2,000-3,000 tons per month; epichlorohydrin, 200 tons per month; phthalic anhydride, 200 tons per month; bisphenol A, 200 tons per month, etc. Chinese trade volumes from Russia have been stronger overall since last year's devaluation.

Phthalic anhydride is leaning towards tight in Russia due to low output, and rouble prices have been rising. Export opportunities are limited with margins very weak. Domestic plasticizer markets in Russia are, according to some observers, better than this time last year. One trader in the Russian market is offering phthalic anhydride on a basis of FCA Tallinn at \$280 per ton. Further details from : Sergey A. Kiselnikov, United Chemical Products Ltd, Tel +7 812 251-59-44, 251-12-82, Fax +7 812 251-18-39, E-mail: ucpspb@spb.cityline.ru.

OAO "Volzhsky Orgsintez" in the Volgograd Oblast is offering aniline in volumes of up to 1,000 tons per month. Total design capacity of the aniline unit is 50,000 tpa. Further details: OAO "Volzhsky Orgsintez", Tel +8443 22 31 73/22 57 79, Fax +7 8443 22 30 71/22 56 47, E-mail: voljos@reg.avtltg.ru.

Other producers of aniline in Russia include Khimprom at Novocheboksarsk and Orgsintez at Novomoskovsk, both with capacities of 25,000 tpa. The Volzhsky plant is estimated to be operating presently at around 50% capacity.

Fibres OAO "Kuibyshevazot" is one of the major chemical producers in Samara region, producing liquid ammonia, mineral fertilisers, caprolactam; etc. In 1996, following the commissioning of an ion-changing cleaning unit the quality of caprolactam was improved which enables the product to compete well in foreign markets. Even so, Kuibyshevazot recognises the unpredictability of caprolactam markets, and is thus aiming to move downstream into polyamide 6 and polyamide 66 production. The purpose of the project is aimed at meeting the needs of motor industry for composition materials, the basic consumer of which is the automobile manufacturer "AvtoVAZ".

Estimated export capability of OAO "Volzhsky Orgsintez"	
<i>Product</i>	<i>Volume (tpa)</i>
Thiazole 2MBS /ALTAX/ (granulated)	up to 2,000
Thiazole 2MBS (powder)	up to 500
2-mercaptobenzthiazole/CAPTAX/ (gran.)	up to 2,000 2-
mercaptobenzthiazole (powder)	up to 500
Carbamate "D"	up to 1,000
Methionine	up to 15,000
Sulphenamide "M"	up to 2,000
Carbon bisulphide synthetic technical	up to 25,000
Isopropyl potassium xanthat	up to 3,000
Isobutyl potassium xantha	up to 2,000
Hexyl potassium xanthat	up to 500
Butyl potassium xanthat	up to 2,000
2-naphtol (2-oxenaphtalene)	up to 5,000
Sodium sulphate (technical, super grade)	up to 15,000
Aniline technical	up to 15,000
Morpholine technical	up to 500
Dimethylsulphide	up to 500
Sodium sulphide	up to 500
Monomethylaniline	up to 3,000

Kuibyshevazot is looking for possible forms of co-operation: including joint ventures, private capital, and mixed financing. The legal address of the enterprise is : OAO "Kuibyshevazot", Novozavodskaya street 6, Togliatti 445652, Samara Oblast, Russia. The General Director is V.I. Gerasimenko, Tel +7 8469 23-54-26, 29-10-20, 26-31-38, 29-19-04, Fax +7 8469 22-59-54.

Other projects being assessed by Kuibyshevazot include the modernisation of the ammonia unit. The project involves the reconstruction of the tubular steam reforming furnace. In a quite different area of market development Kuibyshevazot is interested in constructing a workshop

for production of mineral water and soft drinks. This would involve installation of the equipment for manufacturing containers from PET, and an installation of line for filling, packing and labelling of bottles. The purpose of the project is aimed at meeting local demands in quality drinks with various natural additives, and also creation of 43 new jobs. The planned market of sales includes Togliatti, the Samara region, and the Volga area. The projected capacity of shop is 7 million bottles a year.

Kuibyshevazot also wants to reconstruct the unit for hydroxilaminsulphate. The project includes an increase of capacity of the existing hydroxilaminsulphate unit from 28,800 tpa up to 38,400 tpa, and the modernisation and replacement of the equipment with automation being introduced. The project should have already started by now but has been held back by a lack of finance.

End use chemicals ZAO "Alliance-Kredit" is seeking raw materials for the production of shampoos. These include glycine, amino acids, cholic acid, etc. Further details: Dmitry Vladimirovich Kallas, ZAO "Alliance-Kredit", Tel/Fax +84570 23946. OOO "Nauka Technika Meditsina" is seeking supplies from Russian producers of hexamethylentetraminum (urotropin). Delivery is to Tomsk. Further details: S V Katurin, OOO "Nauka Technika Meditsina" , Tel +7 3822 42-72-14, Fax +7 3822 41-93-57, E-mail: KSV@NTM.TSK.RU.

Khimindustriya-Invest is seeking new markets for acrylic paints called Pinotexil which are claimed to possess advantages over imported products. Delivery is from warehouses in Moscow, it is possible to deliver to Russia and the other CIS countries. Further details: Nadezhda Lutsenko, Commercial Department, Khimindustriya-Invest, Tel/Fax +7 095 937-76-84.

Polyurethanes Nizhnekamskneftekhim has formed a long term partnership with BASF to produce and sell polyurethane systems. Other products which are part of the agreement include *Styropol*, anti-freeze, hydraulic fluids and detergents, all of which will be sold in the CIS. This partnership is expected to precede a joint venture between BASF subsidiary Elastogran and Nizhnekamskneftekhim later this year. BASF will contribute \$25 million in the partnership and Nizhnekamskneftekhim will put forward an

equal amount in equipment. The new venture is expected to start operations in August and the first products should be on the market next year.

Belarus

The Mozyr refinery in Belarus processed 543,000 tons of crude in the first 4 months of 1999, 66% more than in 1998. This increase has been facilitated mainly due to the fact that Belarus has paid off its oil debts and is paying promptly for oil deliveries to Slavneft.

OAO "Pinema" is looking for regular supplies of polypropylene and polyethylene (LDPE) for delivery to Pinsk in Belarus. Further details: Gennady Kosko, OAO "Pinema", Tel +375 165 34 34 65, Fax +7 165 34 36 89, E-mail: gkosko@mail.ru.

Ukraine

Aside Oriana facing anti-dumping duties for the sale of pure magnesium to the European Union economic area, efforts are underway by a foreign consortium to revive production at Kalush. Previous involvement by Shelton has led the company into more chaos, but foreign involvement may save the complex.

The Ukrainian-Russian industrial financial group Poliprom in Dnepropetrovsk is offering ethyl acetate for usage in resins and ethers, etc. Other products for offer include urea-formaldehyde resins. For further details, Oleg Efimov, NPP "Poliprom", Tel +380 56 770-22-04, 770-22-01, 770-04-93, Fax + 380 56 770-04-83. Zarya at Rubezhnoye is seeking volumes of 1,000 tons per month of toluene and 100 tons per month of acetaldehyde. Further details: A Bezdolya, Zarya, Tel/Fax +380 6453 95178, E-mail: zarja@sovamua.com.

Kazakhstan

Industrial output continues to fall in Kazakhstan with a 4.6% fall in the first four months of 1999 compared with the corresponding period of 1998. However, this year the chemical industry has increased its output by 6.4%. In the oil sector, the Atyrau refinery, in the west, and the Pavlodar refinery, in the north, almost halved crude oil processing in January and February. The Pavlodar refinery has difficulties in securing sufficient crude supplies from Russia, but still managed to achieve a utilisation rate of 40.5% in 1998. The Shymkent refinery, in the south, has reduced processing by 40% over the past three months mainly due to its inability to compete with Russian gasoline. As an aim to increase domestic refining, particularly at Pavlodar, the Kazakh government has recently abolished the import duty on crude of 15 euros per ton.

The national oil and gas company KazakhOil has purchased a 45% stake in the JSC Atyrau Oil Refinery (AOR) from the Swiss company Telf AG. The relevant agreement was signed on May 21. As a result of the transaction, KazakhOil currently owns 86% of the refinery.

The Canadian company Hurricane Hydrocarbons is currently in negotiations with KazkommertsBank (KKB) for the acquisition of OAO "Shymkentnefteog sintez". Through its subsidiary Hurricane Kumkol Munai, Hurricane Hydrocarbons has processed crude at Shymkent over many years. Kazakhstan and Russia are negotiating a deal for the delivery of Karachaganak gas condensate to the Orenburg gas processing plant, in exchange for the delivery of low cost Russian gas to the northern regions of Aktyubinsk and Kostanay.

The Khimprom chemical plant at Pavlodar, in the north east of Kazakhstan, was placed in a state of emergency in April, due to the threat of being contaminated with mercury fumes after a spell of warm weather. Since 1975 until 1993 the Khimprom plant had produced caustic soda and chlorine using mercury technology. Defects in the production cycle were cited behind the cause of a hazardous emission of mercury, estimated at 900 tons, to amass under one of the shops of the plant. In 1998, operations to neutralise mercury were launched counting on financial support from the state estimated at 246 million Tenge (or around three million dollars) promised by the government.

However, the funds have never arrived and the organisation which had signed a contract to conduct clean-up operations broke off the contract. As a result, heaps of litter and construction waste saturated with mercury remained in the open. The spring thaw posed a threat of environment contamination in the nearby territory by mercury fumes. In the "epicentre" the concentration of mercury in the air exceeds permissible norms almost threefold.

Under conditions of the state of emergency a number of city enterprises are helping to remove the contaminated waste from the chemical plant, counting on compensation to be paid back later. The Khimprom plant, and the Kazakh Ministry for Ecology and Natural Resources, have signed a contract on allocation of 149 million Tenge for elimination of the source of air contamination. However, this is only part of the programme to bar the spread of hazardous mercury fumes, expected to be carried through by mid May. Operations to fully eliminate mercury contamination have been estimated to cost around one billion Tenge. Khimprom is confident that it will get the funds they need due to the seriousness of the situation.

The chemical industry is broadly seen as one of the major polluters in Kazakhstan. In the past year the use of low quality poisonous chemicals in the agricultural sector has been blamed for causing damage to 30% of the cotton crops, and has resulted in \$2m worth of losses.