CIREC MONTHLY NEWS
Chemical Industry News for Central Europe, South East Europe and Eurasia
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Czech Republic | Slovakia | Hungary | Poland | Bulgaria | Romania | Croatia | Slovenia | Yugoslavia | Baltic States | Russia | Belarus | Ukraine | Transcaucasus | Central Asia | Kazakhstan
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Features from the March 2004 issue

- In amongst the due diligence which has been underway in the past few weeks, Unipetrol announced worse than expected results for 2003. While the group's refinery unit, Ceska rafinérská, reported a Kc 416 million net profit on turnover of Kc 32.8 billion, the market had expected better figures for the group overall. Unipetrol's petrochemical unit posted net profit of Kc 109 million and its plastics division reported a Kc 128 million net profit. In total, Unipetrol saw its net consolidated profit drop to Kc 148 million in 2003, down from Kc 635 million in 2002. Conversely, consolidated revenues rose from Kc 60.2 billion in 2002 to Kc 68.7 billion last year. The sales' margin fell from Kc 1.6 billion to Kc 1.4 billion.
- Slovak PVC and chemical producer Novacke chemicke zavody (NCHZ) saw its gross profit for 2003 fall to SKK 28 million, a decline of SKK 7 million from 2002. The company attributes the decline in part to rising energy costs, which added SKK around 100 million in expenses last year. The PVC plant has a capacity of 77,000 tpa which is relatively small compared to the major players in the region such as EVC, BorsodChem and Anwil.
- The dispute between Russia and Belarus over gas prices, and control of the Belarusian gas monopolist, Beltransgaz, led to a difficult situation in which Poland was deprived of gas for 14 hours in February. As a result, PGNiG, had to reduce the amount of gas delivered to chemical plants at Pulawy, Police, Tarnow, Wloclawek and Kedzierzyn. They were subsequently forced to limit production temporarily. If the disruption had lasted as long as 24 hours, practically the whole chemical would have been affected. Fortunately, the matter was resolved at least for the time being. Reserves and supplies from domestic sources and the gas transferred through Ukraine and Norway were enough to satisfy the needs of customers.
- Petrohemija provided an update of its investment plans at the Marcus Evans conference in Prague in February, one of the main elements of which is the proposed new polypropylene plant at Pancevo. The company has established two main phases of development in petrochemicals. The first phase is envisaged by the company to be undertaken prior to privatisation, but arguably it may be necessary to complete this part of the process before any partners may be willing to become involved.
- Kazanorgsintez ran at full capacity in January, with the company's four ethylene units producing a total of 40,720 tons. Kazanorgsintez has been more engaged with Gazprom in recent months, which has helped ensure sufficient supplies of ethane and other feedstocks.
- The Russian Ministry of Anti-Monopoly (MAP) has decreed that the United Trading Company (UTC), and a number of liquid caustic soda producers, have broken the law regarding competition and contracts formed with consumers. Also the commission has approved the application to the Arbitration court concerning the liquidation of UTC. The monopolistic marketing position has allowed UTC to establish exclusively high prices for caustic soda, and has also deprived consumers of the opportunity to choose a different supplier.
- Kazakhstan has introduced special taxation rules for organisations that are engaged in oil and gas refining to create a favourable investment climate in the petrochemical sector. In particular, as an incentive corporate income tax will not be paid in the first five years after a petrochemical facility is launched. .

CENTRAL EUROPE

Czech Republic

(Czech crown, Kc, Jan 29, $1 = 26.42, €1 = 33.16)

Unipetrol

In amongst the due diligence which has been underway in the past few weeks, Unipetrol announced worse than expected results for 2003. While the group's refinery unit, Ceska rafinérská, reported a Kc 416 million net profit on turnover of Kc 32.8 billion, the market had expected better figures for the group overall. Unipetrol's petrochemical unit posted net profit of Kc 109 million and its plastics division reported a Kc 128 million net profit. In total, Unipetrol saw its net consolidated profit drop to Kc 148 million in 2003, down from Kc 635 million in 2002. Conversely, consolidated revenues rose from Kc 60.2 billion in 2002 to Kc 68.7 billion last year. The sales margin fell from Kc 1.6 billion to Kc 1.4 billion.

Kaucuk at Kralupy showed a net profit of Kc 129 million in 2003, and Chemopetrol posted a net profit of Kc 109 million due partly to the start-up of a new polyethylene unit.

Regarding privatisation, KazMunaiGaz has stated that it intends to participate with a partner, which has been speculated but is unconfirmed. At the first stage KazMunaiGaz was unable to independently pass tender procedures, but now is looking for an opportunity to enter the bidding with one of the companies still participating in the tender. KazMunaiGaz, 100% owned by the Kazakh state, is a vertically-integrated oil and gas company, comprised of 45 divisions, including hydrocarbon processing, exploration, surveying, recovery, and transport.

The sale of the Unipetrol packet could earn around $590 million for the government. However, the government is less preoccupied with price than finding the best partner for Unipetrol and its subsidiaries. All the three selected bidders asked for more information and data about Unipetrol as part of the due diligence process. The bidding companies have included observers from their own subsidiaries, such as Anwil as a part of Orlen. If Orlen were successful Anwil would take control of Spolana.

Slovakia

(Slovak crown, Kc, Feb 27, $1 = 33.33, €1 = 40.48)

Slovnaft

Slovnaft showed a net profit of SKK 2.39 billion in 2003, down from SKK 3.05 billion in 2002. Sales were up 3% to SKK 67.32 billion. The company showed a net profit of SKK 625 million in the last quarter of 2003, up from SKK 296 million in Q4 2002. Slovnaft completed a major reorganisation last year and is now fully integrated into the structure of MOL. Slovnaft says higher revenues from automotive fuel sales and price differences between Brent crude and Russian Ural oil helped the company in 2003, while the weakening dollar, electricity price hikes and the re-evaluation of inventories all had a negative affect.

Revenues from the sale of refinery products were up 2.1% to SKK 47.76 billion. Revenues from petrochemical sales were down 3.2% to SKK 10.08 billion, due mainly to the unplanned closure of the ethylene unit.

The new Polypropylene 3 unit is scheduled to be completed at Bratislava in the latter part of 2004, while the desulphurisation unit will keep the volume of sulphur in diesel fuel below 10 parts per million as from May 2005, in line with EU standards. The new polypropylene plant will have a capacity of 255,000 tpa, based on Dow's Unipol Hipol technology, and will eventually lead to the phasing out of the two existing units, with a combined capacity of 70,000 tpa.

Slovnaft plans to build a transport terminal in Bratislava's river port with an annual capacity of several million tons. Bratislava will also be a key link in the YUKOS-OMV memorandum of understanding for the transportation of crude oil from Siberia to the Schwechat refinery. A new pipeline will be extended subsequently from Bratislava to Schwechat. OMV, which buys crude oil mainly from the Middle East and the North Sea, will thus be able to diversify its oil supplies.

NCHZ

Slovak PVC and chemical producer Novacke chemicke zavody (NCHZ) saw its gross profit for 2003 fall to SKK 28 million, a decline of SKK 7 million from 2002. The company attributes the decline in part to rising energy costs, which

added SKK around 100 million in expenses last year. The PVC plant has a capacity of 77,000 tpa which is relatively small compared to the major players in the region such as EVC, BorsodChem and Anwil.

NCHZ's sales amounted to SKK 4.72 billion in 2003, approximately the same level as in 2002. Exports accounted for 83% of sales with Germany being NCHZ's biggest export market, buying nearly a quarter of the total exports. The Czech Republic was next largest destination, with around 20% of the company's exports.

NCHZ invested SKK 316 million last year, with SKK 67 million going to environmental projects in line with EU harmonisation. The company expects to show a profit in 2004 based on product margin forecasts.

Marcus Evans Central & East European Petrochemical Conference, 25-26 Feb 2004
The third event held by Marcus Evans on the chemical and petrochemical industries of Central and East Europe was well attended and focused on topical issues that are affecting the region at present. EU accession, integration and joint ventures in polyolefins, coupled with a regional focus on South East Europe, were all issues for consideration by the various speakers and during the networking sessions.

The primary regional focus was on integration, particularly the MOL-TVK-Slovnaft chain, and BOP in Poland. Expansion of olefin and polyolefin capacity in the next two years will give the region a strong edge in HDPE and polypropylene supply. This new capacity may initially be focused on export activity to some degree but is being constructed principally for the perceived demand side opportunities in Central Europe in the next few years. Accession to the EU is likely to be a contributory factor to helping the growth in demand.

In South East Europe, Petrohemija at Pancevo outlined its two-phase modernisation programme up till 2010. This includes an expansion of the HDPE unit and the construction of a 180,000 tpa polypropylene plant. For these plans the company will require partners.

Following the success of the event Marcus Evans is planning to stage another conference in 2005, with the location to be decided at a later date.

Hungary

(Hungarian forint, Ft, Feb 27, $1 = 210.90 €1 = 255.91)

TVK 2003
In 2003, the TVK Group recorded Ft 4,235 million in consolidated operating profit (EBIT) against Ft 443 million in 2002. As part of the Ft 3,792 million profit-increase achieved by the group, TVK Rt's operating profit increase accounted for Ft 3,089 million of the total. Consolidated companies contributed to the 2003 group profit by Ft 983 million, while the Q4 EBIT of the subsidiaries totalled Ft 355 million. The net financial result was a Ft 103 million loss.

Aside the beneficial exchange rate changes, higher sales' prices and improvement in efficiency in the internal processes also contributed to the increase of operating profit. In 2003, the controllable costs remained at the same level in 2002, in spite of the planned maintenance shutdown of the petrochemical plants that took place in 2003.

TVK Rt's sales by petrochemical division in Q1-Q4 2003 (in Ft million)
(Hungarian forint, Ft, Nov 18, $1 = 210.90 €1 = 255.91)

Product	*Domestic*	*Export*	*Total*
Olefin	30,778	576	31,354
LDPE	9,392	9,924	19,316
HDPE	6,632	23,904	30,536
PP	27,280	20,600	47,880

Turnover
The sales of the parent company TVK Rt comprised 89% of group level sales. In 2003, TVK Rt's sales were up by Ft 3,349 million compared to 2002. Polymer sales grew by Ft 459 million, and olefin sales grew by Ft 2,319 million. Polymer sales increased as a result of the favourable exchange rate changes, while the lower volumes sold were due to the 2003 maintenance shutdown. The increase in olefin sales resulted from the higher quoted prices.

Net sales' revenues of TVK Rt totalled Ft 133,646 million, while Group net sales' revenues amounted to Ft 150,259 million, 2.6% and 11.2% higher than in 2002 respectively. The main role in the increase of group sales was played by the sales of LDPE and PP produced by Slovnaft and sold by TVK's trading subsidiaries.

Capital expenditures at TVK Rt (Ft million)

Investment area	*2003`*	*2002*
Petrochemical Project	52,028	16,541
New Olefin-II Plant	31,832	7,611
New PE-IV plant	11,893	3,723
Other investments	8,303	1,306
TOTAL	36,484	5,207

Capital expenditure

In 2003, capital expenditures of the TVK group reached a total of Ft 55,420 million, which is almost three times higher than in 2002. The increase was mainly due to costs involved in the petrochemical development project, the cost of which comprised 94% of the total capex. The total planned capex of the project is €430 million, of which €237 million had been outlaid by the end of December 2003.

TVK aims to complete its Petrochemical Development Project in record-time. In the fourth quarter of 2003 equipment continued to be delivered for the Olefin 2 project. Civil construction is reported to have been completed, whilst there is steady progress on the construction of the cracking furnace, steel structure assembly, piping prefabrication, etc.

Both domestic and foreign design engineering for the new Polyethylene 4 plant, is almost complete. In Q4, faster than scheduled progress was reported on equipment installation, with deliveries of large quantities of equipment and piping materials from suppliers. Design engineering of all the off-site facilities has been completed, thus far, whilst the company is ahead of the construction schedule for the 10,000 m3 ethylene storage tank. Modernisation in the wastewater treatment unit is nearing completion; and preparations are underway for its acceptance for commissioning.

BorsodChem's Sales' Revenues
(Hungarian forint, Ft, Feb 27, $1 = 210.90 €1 = 255.91)

Product	*2003 (Ft mil)*	*2002 (Ft mil)*
PVC resin		
Domestic	3,924.8	4,489.7
Export	30,132.6	31,362.6
Subtotal	**34,057.4**	**35,852.3**
PVC compounds		
Domestic	809.8	720.7
Export	4,362.0	3,614.0
Subtotal	**5,082.7**	**4,423.8**
MDI products		
Domestic	75.3	155.8
Export	18,880.1	16,916.8
Subtotal	**18,955.4**	**17,072.6**
TDI products		
Domestic	1,110.0	980.6
Export	24,056.9	19,747.8
Subtotal	**25,166.9**	**20,728.4**
Caustic soda		
Domestic	2,607.3	2,897.4
Export	1,816.1	2,335.9
Subtotal	**4,423.4**	**5,233.3**
Aniline		
Export	**6,383.3**	**4,516.6**
Plastic semi-finished and finished products		
Domestic	5,517.4	5,388.2
Export	6,132.4	5,791.2
Subtotal	**11,649.8**	**11,179.4**
Other products		
Domestic	9,265.8	9,004.5
Export	16,907.2	16,477.1
Subtotal	**26.173.0**	**25,481.6**
Total sales	131,891.9	124,488.0
Domestic sales	23,221.3	23,726.0
Export sales	108,670.6	100,762.0

Feedstocks

Over the full year the average quoted price of naphtha in 2003 was $252/ton, and gas-oil $265/ton. This means a respective 22% and 24% increase in naphtha and gas-oil, compared to 2002. The need to buy additional propylene to support polypropylene production, combined to the general effect of exchange rate factors, were the main reasons for the Ft 1,224 million (1%) growth in material costs. The value of goods purchased for resale showed a Ft 13 billion (143%) increase. This rise was generated partially by the increased sales of purchased tar, and by the appearance of the sales of Slovnaft's products through TVK's trading subsidiaries.

Integration

The integration of the business divisions including production, feedstock-supply, and product-sales in the MOL Group was implemented during 2003. There are further plans to implement the integration process of the functional areas in the first half of 2004, with a further tightening of links between TVK and Slovnaft. This integration will ensure many advantages for TVK, for example the stable feedstock supply and by-product allocation, and the optimal operation of sales' channels. Sales on polyolefins are conducted between Slovnaft and TVK as a single entity, although each company retains its own independence. Of the two producers only TVK produces HDPE whilst both produce LDPE and polypropylene. Under the new structure the group will conduct integrated polymer sales and marketing activity, integrated production (i.e., common inventory management) and joint strategic and investment projects.

BorsodChem 2003

In 2003, BorsodChem increased its sales' revenues by 5.9% compared to 2002. As part of the company's total sales' revenues the share of PVC resin fell from 28.8% to 25.8%. A 5% reduction in sales' revenues took place, with a 2.1% decrease of volumes. BorsodChem suffered a Ft 685 million loss in Q4 2003, compared to a profit of Ft 3.3 billion in the same quarter of 2002.

BorsodChem believes that the chemical industry's recession reached its trough in Q2-Q3 last year, with signs of recovery seen already in Q4, especially in the case of PVC and MDI. TDI revenues rose by 21.4%, and MDI by 11%, while sales of PVC resin fell by 5%. The Group EBITDA was Ft 20.6 billion, up 2.6% on the year, while the company's operating margin was 9.2%. BorsodChem spent a total of Ft 15.6 billion on investments last year.

For the BorsodChem Group, which is 82% export-oriented in its product sales structure, the greatest challenge of 2003 was the weakening of the Hungarian Forint exceeding 10% compared to the euro. The geographical breakdown of sales could be divided mainly into domestic and Central-East Europe 49.4%, and West Europe 44.2%.

The fall in PVC resin production was due mostly lower demand. However, demand for PVC compounds was significant in export markets and also the demand for PVC window profiles improved. Sales' revenues of TDI rose by Ft 4,438.5 million, i.e. 21.4%, which was nearly in direct proportion with the volume increase in production. The product's share in total sales' revenues increased up to 19% and thus it now easily represents the second most important individual product after PVC. The profit increase is backed by additional sales of 10,400 tons of TDI compared to 2002, all of which was based on good margin.

BorsodChem Production (unit-kilo tons)

Period	*PVC*	*VCM*	*MDI*	*Aniline*	*TDI*
2003	267.6	174.2	58.0	98.5	61.1
2002	275.1	190.0	53.6	93.3	50.3

BorsodChem's profit before tax was Ft 6,510 million, which is 52.2% of the same level in 2002. BorsodChem has again complied with conditions of tax allowance in 2003 and thus the obligation to pay taxes is only Ft 190 million. The profit attributable to minority interest-holders, such as Dynea Austria GmbH, AliaChem AS, amounted only to Ft 65 million. Thus, the company's net profit for 2003 is Ft 6,255 million, which was 50.9% of the profit in 2002.

MOL

MOL's petrochemical division saw a fall in operating profit in 2003 to Ft 0.9 billion, compared to a Ft 3.1 billion profit in 2002. The deterioration is largely due to the business climate in the petrochemical industry, particularly in Q3 2003. Improvements in efficiency continued in terms of costs, with a reduction in staff numbers. Capital expenditure and investments grew to Ft 368.8 billion compared to Ft 89.6 billion in 2002, partly due to the successful completion of the West-Siberian ZMB transaction, the purchase of a majority stake in Slovnaft and the acquisition of 25% plus one share stake in INA. Progress in the downstream EU-2005 quality project and in the TVK capacity expansion project also contributed to higher capital expenditure in 2003.

MOL Group Olefin/Polyolefin Capacities

Product/Producer	*TVK*		*Slovnaft*	
	2002	2005	2002	2005
Ethylene	360	610	200	200
Propylene	180	305	135	135
Polyolefins (total)	605	800	240	425
HDPE	200	400	-	-
LDPE	120	120	170	170
PP	285	280	70	255

In Q4 2003, MOL signed a memorandum of understanding with PKN Orlen, whereby the parties agreed to examine the potential for partnership. There is still some considerable way to go before a tangible alliance could be envisaged, but for the MOL Group the merger could enable its potential entry into Poland, the largest market in the region which has significant growth potential. An agreement between MOL and PKN Orlen would be the most significant regional consolidation step in Central Europe to date. However, MOL stresses that the aim of any transaction would not be size itself, but the opportunity to enhance shareholder value.

The integration of production and sales of Slovnaft and TVK from 2004 is also expected to contribute to future value. The combined MOL-Slovnaft-TVK programme includes stand-alone company initiatives in addition to a synergy development programme, and is expected to result in benefits of something around $260 million by 2005. In 2003, MOL estimates that it had achieved around 40% of benefits targeted for 2005. By 2005, the MOL group will hold a total of 800,000 tpa of polyolefins.

Poland

(Polish zloty, zl, Feb 27, $1 = 3.99 €1 = 4.84)

Basell Orlen Polyolefins (BOP)

Coperion Werner & Pfleiderer GmbH has confirmed an order from Basell Orlen Polyolefins (BOP) for the largest global system for compounding and palletising of polypropylene. This system is designed for a throughput rate of 55 to 60 tons per hour of polypropylene, which corresponds to the production capacity of a modern world-scale plant.

This compounding and palletising system will be installed at Plock enables the production of different polypropylene grades within a wide viscosity range. Commissioning and start-up of the compounding and palletising system is scheduled for early 2005.

Regarding the joint venture PKN Orlen and Basell Europe Holding have received the credit line for €350 million organised through a consortium led by the Bank of Tokyo Mitsubishi, and also including Mitsubishi Tokyo Financial Group, Belgian KBC, Societe Generale and the EBRD. The Orlen/Basell venture will invest €320 million in the construction of new polypropylene and polyethylene plants totalling 800,000 tpa, and will reserve €30 million for usage as operating capital.

PKN Orlen 2003

PKN Orlen generated an operating profit of zl 1,328 million in 2003, representing an 81.7% increase over 2002. The net profit was zl 1,041 million, an increase of 147% over 2002. The petrochemical division's result across the Orlen Capital Group grew by 109% to zl 418 million, with increases in demand for fertilisers and PVC. Anwil recorded a net profit increase based largely on the sale of fertilisers Canwil, which increased by 50%, and ammonium nitrate which increased by 34.8%. PVC sales' revenues increased by 12.4%. The integration of polyolefin sales into BOP meant a slight decrease in Orlen's revenues.

Total sales for Orlen were down 0.6% to zl 4.55 billion, but that was largely the result of a change in the company's structure of sales. Petrochemical output totalled 2.12 million tons, up 2.4% on 2002.

Polish refining

LUKoil is interested in cooperation in refining and processing with PKN Orlen. Both companies see room for cooperation, after they had held first exploratory talks in October 2003. For LUKoil, the effort marks another attempt to forge a position on the Polish fuel market.

Poland has finalised the creation of a second major fuel group and provided the shares of three small refineries and a Baltic Sea oil-drilling company into the structures of Lotos Group. Lotus's 75% owner, which is Nafta Polska, will receive 10% stakes in Rafineria Czechowice, Rafineria Glimar, and Rafineria Jaslo, all located in southern Poland, and 75% of the offshore drilling company Petrobaltic. Poland's leftist cabinet will be asked to sanction the non-public transfer of the shares.

The Treasury stressed that the takeover of the companies would lead to increased production and storage capacities of the Lotos Group and would allow the group to grow its share of the fuel market, particularly in southern Poland. Lotos expects to grow its sales further in 2004, though the group creation is expected to dent its bottom line.

Polish gas supply

The dispute between Russia and Belarus over gas prices, and control of the Belarusian gas monopolist, Beltransgaz, led to a difficult situation in which Poland was deprived of gas for 14 hours in February. As a result, PGNiG, had to reduce the amount of gas delivered to chemical plants at Pulawy, Police, Tarnow, Wloclawek and Kedzierzyn. They were subsequently forced to limit production temporarily. If the disruption had lasted as long as 24 hours, practically the whole chemical would have been affected. Fortunately, the matter was resolved at least for the time being. Reserves and supplies from domestic sources and the gas transferred through Ukraine and Norway were enough to satisfy the needs of customers.

Chemical plants consume around 20% of the gas used daily in Poland and were the first to suffer from the disruption in deliveries. PKN Orlen was not affected but could have possibly been had the disruption continued much longer. The situation is expected to be unstable effectively as long as Russia provides Belarus with gas at preferential prices, or alternatively until Poland is able to develop sufficient alternatives.

Nafta Polska

The planned consolidation of the chemical industry by Nafta Polska will most probably not take place before the EU accession. As there are less than two months to go it would difficult to contend that assertion. Nafta Polska is waiting for the Treasury Ministry to schedule the consolidation path for the fertiliser production sector, in particular.

Orlen-Brenntag

PKN Orlen has signed a preliminary deal with Brenntag to take over Orlen Polimer, which distributes polyolefins. The final contract should be signed in March or April and Brenntag will then await a decision of the Interior Ministry to purchase a 100% stake in the company. In this process, Brenntag would become Orlen's commercial partner as well as a major player on the plastics market in Poland.

SOUTH EAST EUROPE

Serbia

Petrohemija
Petrohemija provided an update of its investment plans at the Marcus Evans conference in Prague in February, one of the main elements of which is the proposed new polypropylene plant at Pancevo. The company has established two main phases of development in petrochemicals. The first phase is envisaged by the company to be undertaken prior to privatisation, but arguably it may be necessary to complete this part of the process before any partners may be willing to become involved. The state currently owns 95% of Petrohemija, but the sale of the petrochemical complex is thought to be likely to follow the privatisation of the country's refinery division. The first phase of development requires an estimated $180 million.

Since the loss of Solventul in Romania, as an ethylene customer in the 1990s, and the destruction of the VCM plant in April 1998 following the Nato bombing campaign the Pancevo cracker has found itself with insufficient outlets in order to run at high rates of utilisation. As a result, ethylene production was only 117,000 tons in 2002 from a capacity of 200,000 tpa. Propylene, moreover, was only 52,000 tons from a capacity of 85,000 tpa.

The first phase of the programme, planned for the period 2004-2006, includes the construction of a 180,000 tpa polypropylene plant. An existing unit operates in Serbia of 30,000 tpa and is run by Hipol at Odžaci, to which Petrohemija supplies monomer feedstock. Although the Pancevo cracker does not produce enough propylene to feed the new planned unit the adjacent refinery also produces propylene which has been taken into account. Investments would be needed to convert both chemical grade and refinery grade propylene.

Another project, which is part of the first phase of the programme, is for the expansion of the HDPE unit at Pancevo from 62,000 tpa to 90,000 tpa. LDPE capacity could be increased from 15,000 tpa to 30,000 tpa. The company also plans minor changes to the ethylene plant in this first phase.

A key part of the development of the petrochemical plans is the integration with the Pancevo refinery. The advantages of this step are numerous, including a reduction in production costs, the utilisation of refinery streams as petrochemical feedstock, and the utilisation of petrochemical by-products in the refinery.

The second phase of development includes the construction of plants for toluene dealkylation with 39,000 tpa of capacity, an ethylbenzene/styrene unit of 125,000 tpa, polystyrene 125,000 tpa, and an ethylene expansion of around 20%. However, this second phase is targeted for the period 2007-2010 and is dependent on completion of the first phase.

Romania

Petrom
Romanian's government may amend the sell off contact of SNP Petrom in a move to preserve the company's integrated structure after the completion of the privatisation process. There is a fear that some of the potential winners may be intending to dispose of certain assets and the government is opposed to this strategy. LUKoil, in particular, has stated that they would expect the completion of the Petrom sell off to signify the start of negotiations to buy assets, although LUKoil is not participating in the tender. The companies still competing for the Petrom stake are Occidental Oil and Gas, Gazprom, PKN Orlen, Hellenic Petroleum, MOL, OMV, and Glencore.

The completion of the privatisation process is the key step before investment plans can be implemented at Arpechim. The main projects include an expansion of the cracker from 200,000 tpa to 300,000 tpa, the construction of a new HDPE unit with a capacity of 120,000 tpa, the construction of a new polypropylene unit with a capacity of 110,000 tpa, and the modernisation of the 100,000 tpa acrylonitrile plant.

Oltchim
The privatisation of Oltchim is unlikely to be considered before the privatisation of Petrom has been completed. This is due largely to the dependence of Oltchim on monomer supplies from the Arpechim plant. Oltchim has decided on a debt-for-equity swap worth $95.3 million. The debt stems from Oltchim's bad loans, which have been taken over by Banking Assets Recovery Agency (AVAB). Following the move AVAB will then hold a 90.9% stake in Oltchim, with the privatisation authority (APAPS) holding another 4.9%. AVAB will transfer its shares to APAPS, which is responsible for the sale of the combined stake.

EURASIA, COMMONWEALTH OF INDEPENDENT STATES

Russia

(Rus rouble Feb 27, $1 = 28.63, €1= 34.76)

Much discussion is focused currently on Russia's accession to the WTO, and what impact that will have on chemical producers. Most Russian producers tend to concentrate on the negative aspects of accession, rather than the long-term positive benefits. In the final analysis if Russia does enter the WTO in 2005, the country still has the right to apply for anti-dumping regulations if certain domestic products are undermined by cheaper or most cost-effective competition.

Chinese Imports from Russia (unit-tons)

Product	*Jan-Dec 2003*	*Jan-Dec 2002*
HDPE	35,705	68,592
LDPE	104,675	114,331
PP	21,420	32,577
Caprolactam	72,480	106,566
Product	*Jan 2004*	*Jan 2003*
PVC	22,278	24,945
n-butanol	13,147	9,688

China has followed this course of action on PVC and caprolactam, in particular, which has affected Russian volumes over the past twelve months. Caprolactam exports from Russia to China were down over 30% for example, whilst PVC exports were down from 238,000 to 133,000 tons.

Oil refining

Russian oil refining grew 1.57% in January against January 2003 to reach a total of 15.672 million tons. LUKoil refined 2.918 million tons of oil, down 0.2%, whilst refining at refineries in the YUKOS group grew 1.43% to 2.562 million tons. Bashneftekhim refined 1.392 million tons, down 14.12%, TNK grew by 4.26% to 1.284 million tons, and Surgutneftegaz it grew 5.15% to 1.351 million tons. Sibneft increased refining by 41.21% to 1.105 million tons, whilst the Moscow NPZ saw a 2.21% fall to 774,500 tons.

SIBUR/Gazprom

SIBUR's tyre strategy

SIBUR will seek to boost its share of the country's automobile tyre market by taking customers from Nokian Renkaat Oy and Bridgestone Corp. SIBUR plans to raise its share of the Russian market to around 55% in 2008, from 48% in 2003. The company expects the Russian tyre market to expand by 6-7% per annum. Russia's domestic production is increasing while imports fall, as Western producers are building up their presence in Russia.

SIBUR-Neftekhim

SIBUR-Neftekhim's Production at Kstovo & Dzerzhinsk (unit-tons)

Product	*Jan-2004*	*Jan-2003*
Ethylene	17,600	13,480
Ethylene Oxide	5,503	2,894
MEG	14,012	13,800
DEG	1,686	1,427
TEG	104	87
Propylene	8,916	7,526
Benzene	6,196	4,632
BBF	3,979	4,092
C5	1,611	1,867
C9	1,189	877
Chlorethyl	360	323
EDC	6,094	6,259
PVC	3,035	2,720
Caustic Soda	5,944	5,191
Chlorine	822	743
Plasticizers	3,736	1,973

SIBUR-Neftekhim's net loss fell in 2003 to 176 million roubles against 463 million roubles in 2002. The company started to post net profits from July 2003. The net profit in the second half of the year was around 56 million roubles against a net loss of 77 million roubles in the second half of 2002. The 2004 target is a 146 million rouble net profit.

SIBUR sent a working group to Nizhniy Novgorod in March to assess the positions at Kaprolaktam and SIBUR-Neftekhim. Physical production at Kstovo and Dzerzhinsk increased 7% in 2003 whilst average wages increased from 5,000 roubles to 7,000 roubles per month. Dzerzhinsk, in particular, is suffering from acute environmental problems caused by the chemical industry, but the amount of investment required to phase out the harmful production processes is quite considerable. SIBUR and its affiliates own 75.07 % of SIBUR-Neftekhim. The other 24.93% belongs to Kaprolactam whose majority shareholder is also SIBUR.

Tobolsk Neftekhim
SIBUR has stated that in the long term that Tobolsk Neftekhim will be reoriented towards higher added value products away its more commodity bases structure at present. The production of concentrated isobutylene with a capacity of 83,000 tpa forms an important part of that strategy, with downstream applications in butyl rubber, butylated phenols, and MMA although this end-use is only seen in Japan. The equipment from the bankrupt Russian-Italian venture Sovbutital will facilitate the start of projects for both butyl and halo butyl rubber. The investments planned by SIBUR into Tobolsk Neftekhim range between $50-60 million, with a two-year period required for construction. The butyl rubber plant will have a capacity of 50,000 tpa which is slightly lower than the unit at Nizhnekamsk.

Nizhnekamskneftekhim

Nizhnekamskneftekhim made a profit of 3.1 billion roubles in 2003. Nizhnekamskneftekhim estimates that it requires around $940 million over the next five years to invest in the new production facilities and expansions that it is planning. A main focus of the emphasis is on the stage-by-stage reconstruction of the olefin complex. In addition to the medium term plans for 600,000 tpa of ethylene, the complex will increase capacities of propylene to 253,000 tpa, 67,000 tpa of butadiene, and 220,000 tpa of benzene. In order to support investment the company has taken out bonds, issuing 2 million at a value of 1,000 roubles each in July 2003.

Energy
The establishment of a jv between Tatenergo and Nizhnekamskneftekhim, which was set up last year, is directed towards an upgrade of the Nizhnekamsk-based heat power plant-1, consisting of the addition of three gas turbine installations. The total capacity of the installations will be 75 MW of electric power and 150 tons of steam, per hour.

The first three installations, when in service, will provide for up to 25% of Nizhnekamskneftekhim's electric power requirements and up to 10% of the company's heating needs. The annual economic benefits for Nizhnekamskneftekhim could amount to about 300 million roubles.

Oligomer Division
As part of the oligomer division Nizhnekamskneftekhim has demothballed a previously idle alkaline polyether facility. Alkaline polyether is used as a feedstock to produce a demulsifier, which is widely used by oil engineers. MEG, ethylene oxide and propylene oxide, are used as a feedstock for alkaline polyether production.

The production volume is dependent largely on the amount of surplus in ethylene oxide production at the styrene and polyester resin plant. The oligomer division can produce normally in the range of 300-500 tons of alkaline polyether per month, although 700 tons was produced in December 2003 when plenty of propylene oxide was supplied.

Kazanorgsintez

Kazanorgsintez ran at full capacity in January, with the company's four ethylene units producing a total of 40,720 tons. Kazanorgsintez has been more engaged with Gazprom in recent months, which has helped ensure sufficient supplies of ethane and other feedstocks.

Kazanorgsintez visited Orenburggazprom in February 2004 regarding the delivery of ethane. Also prospects of co-operation were discussed between the two companies, including the joint production of polyethylene.

Kazanorgsintez» plans a total turnover of 10.5 billion roubles for 2004 against 8.7 billion roubles in 2003. The gross profit this year is forecast at 1.7 billion roubles against 1.5 billion roubles last year. In 2004, Kazanorgsintez expects to produce 394,000 tons of ethylene against 370,400 tons in 2003, 415,000 tons of polyethylene against 383,000 tons and 38,000 tons of polyethylene pipes against 23,000 tons.

By 2010, Kazanorgsintez has set itself the target of achieving a turnover of $1.3 billion per annum, with an annual profit level of around $350 million. In 2004, the company plans to finish the modernisation of the HDPE unit, which will increase capacity from 196,900 tpa to 360,000 tpa. Kazanorgsintez has improved the quality of LDPE production in the past year through the polymerisation process. The company has started to introduce palladium catalysts for the hydrogenation of ethane-ethylene fractions. NPP Oxit and SKTB Katalizator have been involved in the project.

The transition to production of more modern brands of polyethylene will be carried out over the next year and the start-up of the increased capacity for HDPE is planned to take place by the end of 2005. This will put pressure on

local ethylene supply, but expansion is underway that will increase ethylene capacity up to 480,000 tpa. Looking further ahead Kazanorgsintez plans to increase ethylene capacity up to 600,000 tpa, with the subsequent introduction of LLDPE which would be the first unit constructed in Russia.

Bashkortostan

Salavatnefteorgsintez
Basell has confirmed that Salavatnefteorgsintez has signed the licensing agreement to use Hostalen technology for a new 120,000 tpa high density polyethylene plant at Salavat. The plant's construction is scheduled to be completed in 2006. The Hostalen process is seen as the leading low-pressure slurry cascade process for the production of monomodal and bimodal HDPE, including PE 100 pipe and high tenacity film grades. Kazanorgsintez and Stavrolen are the only producers of HDPE in Russia at present, but projects are underway or under review at SIBUR-Neftekhim and Nizhnekamskneftekhim.

Sterlitamak Petrochemical Plant
Contracts for a total sum of $13 million have been concluded by the Sterlitamak Petrochemical Plant this year with a number of western companies. This year production of Agidol-0 and Agidol-1 will be exported to Saudi Arabia, Germany, Italy, Brazil, the UK and Belgium. In January 2004, the company's production utilisation rate only achieved 66% due to the seasonal demand for some products (such as drying oil and rubber used for paintwork production). The lack of feedstock also affected the plant utilisation rate.

Polief
On 25 February, the President of Bashkortostan held a working meeting regarding the further development of Polief. The prospect of creating a consortium with the participation of representatives of the government of Bashkortostan, Gazprom and SIBUR has come under consideration. Gazprom has become very influential in Bashkortostan, particularly at Salavatnefteorgsintez even if this involvement may seem confusing to the outsider. Above all, Polief needs finance to complete the construction of the PTA plant in the first place and the PET plant in the second place. In both cases there is a product shortfall in Russia so there does seem a logical connection in bringing Gazprom and SIBUR to the table to complete these projects.

Volgograd

Kaustik
Kaustik at Volgograd has placed an additional issue for shares for the sum of 6.25 million roubles in order to support investment. Kaustik produces around 25% of caustic soda in Russia; with production based on the Svetloyarsk salt deposits in the Volgograd area. Capacity of caustic soda production is 210,400 tpa with production in 2002 of 176,800 tons.

North Urals

SIBUR has signed an agreement with the Perm Administration over investment worth around one billion roubles into SIBUR-Khimprom. Half of this amount will be invested this year. For both subsidiaries in the region, SIBUR-Khimprom and Uralorgsintez, SIBUR plans to pay higher taxes to the local Administration this year.

Uralkhimplast
In 2003, Uralkhimplast increased production by 37.9%. Most significantly, the rate of growth of labour productivity amounted to 47.3% over 2002. Output of phenol-formaldehyde resins increased by 30.9% (liquid resins by 34.3%, and solid resins by 25.6%); urea resins by 2.7%; phenoplasts by 9.5%; plasticizers by 4.6%; and paraformaldehyde by 31.1%.

Uralkhimplast is a large chemical holding with production capacities at Nizhniy Tagil and Saint Petersburg. Its main production facility is located at Nizhniy Tagil. Products in good demand include new types of phenol formaldehyde resins for mineral glass wool, as well as resins developed in 2003 for new wood-processing products: LVL and OSB beams. The general profitability factor for new products amounts to over 20%.

The company is enjoying benefits from the boom in the housing and construction sectors and has invested accordingly to meet these demands. For the moulding industry, the production of new bonding systems has been introduced, whilst the export of phenolics has also increased. The company offers a special plasticizer brand, DBEA, to general rubber product manufacturers, with no equivalents currently existing in Russia. The recent restructuring

has enabled the company to simplify the structure of the enterprise, including the establishment of the first Russian-German joint venture with Rutgers VFT, for the production of orthocresol.

The other two major investments in 2003 included the commissioning of a 2 Mw turbogenerator that satisfies part of the electricity demands for the production facilities. Thus, the company has reduced its energy costs and lowered the dependency on the local energy supplier Sverdlovskenergo. The third project involved the launch of Russia's largest formaldehyde plant with a capacity of 120,000 tpa.

Irkutsk

Ethylene dispute in Irkutsk

Ethylene supply to Sayanskkhimplast was halted for about two weeks in February following a dispute with YUKOS over the renewal of the ethylene contract between the Angarsk and Sayansk plants. For over twenty years the two plants have worked closely together, but detectably since YUKOS became involved the atmosphere has become slightly less co-operative. The key factor behind this dispute is the loss of PVC sales by Sayanskkhimplast to China. This has meant that Sayanskkhimplast is not able gain access to higher prices and has to settle for lower numbers on the domestic market, or at last that is the contention. YUKOS argued that Sayanskkhimplast was making unreasonable demands over the reduction of the ethylene price and refused to prolong the contract. On 6 February, YUKOS thus halted ethylene deliveries to Sayanskkhimplast and supply was not resumed until 21 February.

Sayanskkhimplast stated that negotiations with YUKOS had been underway since November. Since then it was clear that the ethylene contract was under pressure, particularly as Sayanskkhimplast was seeking a reduction of around 38% from the level from last year. The price of ethylene has for a long time been determined by the formula of PVC sales to the southern parts of China. However, anti-dumping measures against Russian PVC have reduced export volumes dramatically since the start of 2003 although volumes in January 2004 were reasonable. Sayanskkhimplast is now looking to conclude ethylene prices that correspond with Russian domestic prices. As can be seen in the section on PVC, domestic prices in Russia have risen on the back of monopolist practices in the past few months, so the argument put forward about lower Russian prices does tend to be confusing and slightly inconsistent.

The Russian Ministry of Anti-Monopoly (MAP) has supported Sayanskkhimplast in the effort to reduce prices. To buy ethylene from Angarsk under the last year's prices would be extremely unprofitable, simply because the majority of production from Sayanskkhimplast is now sold in the Russian market.

The fundamentals of the new agreement, which have suited both plants after much negotiation, are that ethylene prices are determined by where PVC is sold, either in the Chinese or Russian markets. The formula sounds extremely confusing and inconsistent, and certainly not based on normal market criteria. In 2004, Sayanskkhimplast will receive 120,000 tons of ethylene from Angarsk under this method. In February, the company received only 3,000 tons but is scheduled to receive 16,000 tons in March.

Sayanskkhimplast's own ethylene plant?

Sayanskkhimplast is considering the possibility of constructing its own ethylene plant that would guarantee feedstock supplies for the VCM unit. The opportunity of integration with Angarsk Polymer Plant is another option that would help avoid the confusion that has occurred recently.

A leading Russian contracting company Stroytransgaz has signed an agreement with Sayanskkhimplast regarding modernisation. The first priority project is the conversion of mercury to membrane technology for chlorine and caustic soda production, and also the increase of VCM and PVC capacity by around a third. This latter part of the project will demand more ethylene.

As a result Sayanskkhimplast is considering the construction of an E-200 ethylene plant based on ethane fractions from the Kovytka deposits, as shown below. Stroytransgaz is expected to be responsible for the project construction. In the near future, a working group will be formed to assess the prospects for a 200,000 tpa ethylene plant.

Kovytka

A contract for the creation of a company for the development of the Kovytka gas condensate deposits was signed in March between TNK-BP and the local Irkutsk administration. The East-Siberian Gas Company, as it will be known, will implement gas supply and the gasification project which will include building a pipeline to the Sayansk region in the Irkutsk Oblast. This is the principal reason why Sayanskkhimplast is considering the construction of its own plant. It could well be the factor that helps to unite Sayanskkhimplast with Usolyekhimprom and the Angarsk Polymer Plant,

between which there are considerable synergies. None of the plants effectively compete although both Sayanskkhimplast and Usolyekhimprom produce caustic soda and chlorine, with Usolyekhimprom being clearly more localised in its sales.

Sayanskkhimplast in 2003 and prospects for 2004
Sayanskkhimplast recorded 4.7 billion roubles in turnover in 2003, which was 14.7% higher than in 2002 for reasons largely to do with higher domestic prices. Growth was achieved in all products, not only in terms of turnover, but also in physical volumes. In particular, PVC and caustic soda production saw increases. In view of the anti-dumping measures imposed by China the increase of PVC production represented something of a surprise, and is probably down to the involvement of the United Trade Company. The level of profitability for Sayanskkhimplast in 2003 was 5%.

The stoppage of ethylene in February will affect the company's profitability this year. Also another negative factor influencing profits in 2004 is the higher tariffs for electricity and heat provided by the local energy supplier Irkutskenergo. Sayanskkhimplast estimates that this year it may be necessary to spend about $6 million more for energy than in 2003.

The third and possibly most important factor affecting profits in 2004 is the cessation of caustic soda and PVC sales through the United Trade Company (UTC). Not only Sayanskkhimplast, but all other caustic soda and PVC producers will in the very near future, i.e., March 2004, be required to conclude direct contracts with consumers rather than conducting sales and deliveries through UTC. The decision was taken in February, by the Russian Ministry of Antimonopoly Policy (MAP).

UTC has effectively created a monopoly for product sales, particularly in caustic soda and to a lesser extent in PVC, which has helped to drive up prices to consumers and subsequently profits for producers. Sayanskkhimplast has used UTC to examine new markets after the introduction of Chinese trade measures against PVC exports.

Product/Company News

Caustic soda
The Russian Ministry of Anti-Monopoly (MAP) has decreed that the United Trading Company (UTC), and a number of liquid caustic soda producers, have broken the law regarding competition and contracts formed with consumers. Also the commission has approved the application to the Arbitration court concerning the liquidation of UTC. The monopolistic marketing position has allowed UTC to establish exclusively high prices for caustic soda, and has also deprived consumers of the opportunity to choose a different supplier.

In the 2002-2003 timeframe, the price for liquid caustic soda saw some fluctuations, but remained within the limits of 3000-4000 roubles/ton (pre-VAT and transport charges). However, as a result of UTC's increased influence in the market prices in the domestic market since late last year have risen and now are considered to be substantially higher than world market prices. Prices quoted by UTC have reached levels of around 6,000 roubles/ton.

These measures have led to a number of consumers being compelled to take caustic soda from UTC under the high prices, and also in conjunction with unprofitable levels of delivery. Complaints about UTC were starting to be lodged with the MAP already by December 2003. The companies that have been submitting complaints include large players from industries including chemical, pulp-and-paper, aluminium, automotive and power. In all cases the companies, or buyers, specified the refusal of the producers to conclude direct contracts for caustic soda.

Prior to this monopolist position emerging producers and consumers were able to reach mutually advantageous long-term contracts for caustic soda deliveries. UTC is seen to have pushed the market too far, or has taken extreme advantage of its monopolist position and is now finding itself under extreme scrutiny from the MAP. A court case has been arranged in Moscow for 25 March when the matter will be reviewed.

UTC was created in 2003, with 99.9% of shares owned by the investment company Sovlink, which incidentally seems to have an influential role in the ownership of Kaustik at Sterlitamak, one of the major Russian caustic producers. From the start of 2004, UTC controlled around 80% of all caustic sales in the Russian market. The main Russian producers apart from Kaustik at Sterlitamak, include Kaustik at Volgograd, Azot at Novomoskovsk, and SIBUR-Neftekhim at Dzerzhinsk, etc. Total Russian production in 2003 was 1.075 million tons against 1.145 million tons in 2002.

PVC
In addition to caustic soda, UTC has concluded contracts for the sale and purchase of PVC with companies such as Sayanskkhimplast, Kaustik, Volzhskiy Orgsintez, and Plastkard. Under the agreement the producer is required to transfer to UTC 100% of PVC suspension production. Also UTC has concluded a similar contract of sale and purchase with Salavatneftresource for 100% of PVC produced at Kaustik, using raw materials supplied by Salavatneftresource.

Due to these contracts UTC has taken a leading position in the market for PVC, accounting for about 65% of the total current demand in Russia. As a result of conclusion of contracts there was an increase in PVC prices by around 10%, and also new exclusive schemes in the sale of finished goods. This has led to a restriction on competition for consumers and has aroused concerns of the Ministry of Antimonopoly commission.

Dimethyl ether
A number of projects are under review for the production of dimethyl ether (DME) in Russia, with the aim of meeting the growing demand as an effective ecological additive to other kinds of fuel. Global production is currently around 150,000 tpa.

A project is scheduled to start in 2005 at Sayanskkhimplast. Negotiations over the project construction have been carried out with the Japanese company JFE, using technology provided by TNK-BP. The main raw material for the production of DME will come from the Kovytka gas field near Irkutsk where TNK-BP is heavily involved in the gasification of the local region. TNK-BP is ready to invest $400 million in the new unit.

Evrokhim is also looking at the possibility of a DME project in the Moscow area based on gas chemistry. The aim is to create a joint venture with the Moscow government for the production of DME, mainly for municipal motor-vehicle transport. The site of the unit would be located at Novomoskovsk Azot, which is owned by Evrokhim.

Thirdly, Vostokgazprom is considering the construction of a DME plant at Tomsk in Siberia. Vostokgazprom, similarly to TNK-BP, is negotiating with the Japanese company JFE. The plant would be located at the Tomskneftekhim site and would be based on gas from Tomsk deposits.

Plastics
Vladimir Chemicals Plant's profits before tax increased from 300,000 roubles in January 2003 to 9.9 million roubles in January 2004. The increase was due to higher rates of PVC conversion, for which sales' revenues increased 50% to 117.6 million roubles. In physical volumes, PVC resin conversion increased 70% year-on-year to 3,200 tons. The company closed 2003 with net profits of 24 million roubles after reporting losses of 16.8 million roubles in 2002. Moscow companies ZAO Kontinent, ZAO Konsul and ZAO YuTEK own respectively 19.98%, 18.38% and 12.83% of the shares in the Vladimir Chemicals Plant. Cavendish International Developments of the British Virgin Islands owns 15.89%.

Regarding the polypropylene processing plant at the Moscow refinery, the refinery owners Central Fuel Company (CTK) have been in conflict with Fiber Technologies (FTI) which constructed the plant in the mid-1990s. In February 1995, Moscow NPZ and FTI made an agreement for the engineering and construction of a 78,000 tpa polypropylene products complex which was subsequently completed. In order to implement this $220 million project the Prime Minister at the time Victor Chernomyrdin granted the refinery customs, tax and export exemptions which are valid until this year.

CTK was attempting to terminate the agreement with FTI and thus keep them out of the refinery where the plant is located. However, the Moscow court over-ruled the appeal by CTK and therefore the company is required to continue co-operating with FTI. The reason why CTK wanted FTI out of the picture seems to one of local interest linked to competing company called Inteco, and the Mayor of Moscow.

Ukraine

(Ukrainian hryvnia, Feb 27, $1 = 5.34, €1 = 6.48)

LUKOR
LUKoil is ready to hold negotiations on the debt of Oriana to Bayerische Vereinsbank after a meeting with the Ukrainian President. In 1992, Bayerische Vereinsbank granted DM212.5 million to Oriana with the aim of constructing a polyethylene unit. Oriana in the early 1990s was a very successful plant, almost like an island in Ukraine but the situation changed for the worse by the middle part of the decade. The new polyethylene plant was

started in 1996, but hardly ran in the first few years due to the lack of operating capital. The equipment was badly maintained during this period.

This meant that the offtake agreements that had formed a central part of the project finance could not be met and as a result Oriana failed to meet its liabilities. The Ukrainian government had started to settle part of the debt with Bayerische Vereinsbank. However, payments were halted after LUKoil took charge of the Oriana's petrochemical facilities as part of the LUKOR venture.

LUKOR plans to construct a unit in 2004 for recycling by-products from olefin production. The capacity of the new unit will be 116,000 tpa and the cost is €8.9 million.

Belarus

Output in the chemical and petrochemical industry in Belarus for January 2004 increased 18.7% in comparison with January 2003, comprising a total of 407.3 billion roubles in value. Mineral fertiliser production totalled 513,400 tons, 16.6% up on last January, sulphuric acid was 51,100 tons or 8.2% up, 47,100 tons of synthetic resins which was 15.8% up, and 19,600 tons of chemical fibres and threads, a gain of 8.2%.

Khimvolokhno
A British company called Braxton Industrial Ltd plans to form a 50:50 joint venture, called Braxton-Braxton, with Braxton at Svetlogorsk to produce viscose threads and non-fabric materials. It is believed that the British company will contribute equipment worth $27.6 million to the joint venture, with focus on products Spanbond and Melt-blown.

Central Asia/Transcaucasus

Turkmenbashi polypropylene plant
\readiness to take part in the expansion of the polypropylene plant, in addition to the Seidi refinery. After the meetings two contracts were signed worth $59 million. Delivery for the first contract will take place in June-October 2004 of 148 units, including equipment and spare parts for a total sum of $39 million. Turkmenneftegazstroy will be the recipient of the equipment and will be responsible for the installation. Completion of the second contract, worth $20 million, will take place in the period June-August.

At an earlier stage of negotiation, Turkmenistan is talking to Iran about the possibility of constructing a polyethylene plant at the Seidi refinery. Both countries at present are concentrated on the construction of a regional oil pipeline. Transcaucasus

Itera and Azot
Itera's position in Georgia and ownership of the Azot complex at Rustavi, which it had agreed with the previous regime, seems under question. The new government has taken the decision to suspend privatisation, which will affect Itera and other Russian investors. In late 2002, the former Georgian government handed over Azot to Itera for a symbolic price of $500,000. Itera undertook a stepwise payment of the company's debt for the state bankrupt company. The Russian company has since made investments and resumed export-oriented production. However, Itera does not want to invest into a new caprolactam production facility at Azot, a measure, which was supported by the previous government. Possibly the new regime will recognise the role of Itera to run the Azot complex. The picture seems to be dependent on Itera continuing to supply gas to Georgia, but talks between the two sides are underway which will be crucial for the plant's future.

Kazakhstan

(Kazakh Tenge Feb 27, $1 = 139.91, €1= 169.85)

Kazakhstan has introduced special taxation rules for organisations that are engaged in oil and gas refining to create a favourable investment climate in the petrochemical sector. In particular, as an incentive corporate income tax will not be paid in the first five years after a petrochemical facility is launched.

Kazakhstan and LUKoil are keen to co-operate on the Gas Project at Karachaganak. The Gas Project provides the construction of a gas processing refinery and gas pipeline for transportation of extracted and processed gas at Karachaganak to consumers. Petrochemical projects have been under review, the government is particularly enthusiastic about the idea of establishing polymer plants either at Karachaganak or Tengiz.

Reserves at the Karachaganak field amount to over 1.2 billion tons of liquid hydrocarbons and 1.3 trillion cubic metres of gas. The field is being developed by the international consortium Karachaganak Petroleum Operating (KPO) in which Italy's Agip and British Gas own 32.5% each, ChevronTexaco 20%, and LUKoil 15%. These companies signed a production sharing agreement with the Kazakh government in November 1997.

The KPO plans that the capacity of the future gas refinery will have a capacity of 5 billion cubic metres of gas per annum initially, with a subsequent escalation up to 10 billion cubic metres. The cost of the project is estimated at between $1-1.2 billion, depending on which type of technology is used.

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