

# ***EAST Europe & C.I.S CHEMICALS BRIEFING***

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## **CENTRAL EUROPE**

### ***Oil refining***

Unipetrol's downturn in profit in 1998 continued into the first quarter this year with a pre-tax loss of Kc 28.46 million. Chemopetrol and Kaucuk for the first quarter recorded reduced profits of Kc 173.210 million (down 79%) and Kc 43.39 million (down 84%) respectively. Despite losses the Unipetrol Group's long term debts were reduced to Kc 8.06 billion at the end of 1998. In the refinery division Ceska rafinerska, 51% owned by Unipetrol, forecasts due to margin pressure that net profits will fall this year to Kc 1.2 billion from Kc 2.0 billion in 1998. The first quarter saw a decline in net profit of 47% to Kc 206 million.

Ceska rafinerska's investment projects under way include a Kc 1.5 billion vis-breaking unit at the Litvinov refinery with a daily capacity of 2,500 tons, scheduled for opening in late 1999. The company also plans to start building a Kc 8 billion fluid catalytic cracker with a daily capacity of 3,800 tons at the Kralupy refinery. This is expected to go on stream in the first half of 2001. At Litvinov, Chemopetrol awarded a contract to Krupp Uhde to revamp a Shell oil gasification plant. The project will allow Chemopetrol to use heavier visbreaker residues. The project will be undertaken in co-operation with Shell.

The major Russian oil producer and refiner LUKoil has been showing interest in acquiring stakes in the Czech refinery Paramo, and in the Benzina petrol retail network. The Paramo refinery, of which the Czech government owns 71%, exports products to Austria, Germany, Hungary and Poland. It also has its own network of 26 gasoline stations. Benzina, a unit of Unipetrol, controls over a quarter of the Czech retail fuels' market.

Russia plans to sell Poland 14 million tons of oil in 1999, according to the Polish Economy Ministry. In 1998, Russia exported 12.5 million tons of oil to Poland and 11.6 million tons in 1996. Of this year's deliveries 5.5 million tons have been agreed to be piped through the Gdansk harbour. Russian oil supplies to Polish refineries in Plock and Gdansk have increased recently, with also more Russian oil in transit through Poland.

### ***Olefins***

Whilst Slovnaft is currently in search for a "strategic partner" recent financial performance has not been particularly encouraging. 1998 profits amounted to Sk 909.6 million, against Sk 1.702 billion in 1997 and Sk 1.290 billion in 1996. Slovnaft has stated that the decline in 1998 was due partly to the long term trend in lower oil product prices and partly to the devaluation of the crown. The fall in world oil prices also had negative effects for Slovnaft. Even so, the company increased physical volume sales of petrochemicals and plastics in 1998 by approximately 4%.

After a prosperous year for profits in 1997, the prospects for Slovnaft have since deteriorated and the company does not foresee a good 1999. Slovnaft is majority owned by Slovintegra, a company composed of the management and employees, while the remaining ownership is composed of other Slovak legal entities, and foreign companies, of which 10% is held by the EBRD. The EBRD is keen to sell its 10% stake, the purchase of which it feels it was misled initially. In addition to the EBRD's vexation with Slovnaft there have been other questions of conflict regarding sales of shares in the company which have not

pleased the Slovak National Property Fund, FNM. Perhaps as the result of these developments there is a search being undertaken for a new influential partner. OMV is an obvious candidate and has made previous efforts to reach an agreement with Slovnaft. OMV is interested in extending its production base in Central Europe and thus Slovnaft would fit with this strategy.

**Polyolefins** Markets for LDPE are very good in West Europe but mixed messages are being received for HDPE. The overall picture is of producers seeing good demand improvement domestically, assisted by export business. Upward pressure is being felt on pricing. The demand for polypropylene in European markets is reported to be strong and better than last year. Growth expectations for 1999 have been made at more than 5%. Strong demand means that producers are operating at high levels of occupancy. TVK is hoping to increase operating income from the polypropylene unit at Tiszaujvaros this year after a fall of 34.1% in 1998 against 1997. Conversely, in 1998 TVK's olefin division increased its operating income by 52%, the LDPE division by 141%, and the HDPE division by 12.2%.

Central Europe-currencies Apr 26th 1999			
Country	Currency	\$1=	EURO =
Czech Republic	Koruna	35.5515	37.8446
Hungary	Forint	235.650	250.850
Poland	Zloty	3.9905	4.2479
Slovakia	Koruna	42.1825	44.9033

Apart from effective cost control, TVK stated that the increase in the LDPE division was partly the result of the completion of lease payments. TVK's internal prices for ethylene and propylene for polyolefin production are about 90% of market prices, whilst for polymers they are 100% of domestic market prices.

**PVC** At the AGM of BorsodChem, at the end of April, an increase of 13% to Ft 155 in the dividend per share to shareholders was announced for 1998 against 1997. The investment programme for 1999 was outlined at the AGM of which Ft 12.5 billion is being directed towards the expansion of PVC capacity at Kazincbarcika. Plans for acquisitions in Croatia and Romania remain priorities.

BorsodChem's plans to offer a convertible bond to foreign investors has been delayed due partly to the state of the Hungarian stock market. The aim of the offer is to raise between \$50-70 million for a new production unit by selling bonds that can be later exchanged for equity shares. The intended March target has passed, but there is hope that the bonds can be offered before the end of the year. In addition to the weakness of the stock market, influenced partly by events in Serbia, BorsodChem is concerned that the complicated securities' regulations could affect the interests of foreign investors. The bankers to BorsodChem, Merrill Lynch, are attempting to produce a manageable solution.

In the latter part of April Spolana's complex at Neratovice encountered a fire which has brought a temporary stop to production. Damages were estimated initially between Kc 50 million to Kc 70 million. Apart from this incident Spolana, together with ZPS Zlin and Kralovopolska Brno, have stated their interest in participating in the government's programme for the revitalisation of industry. Spolana's future has been in doubt over the past few years due mainly to its outstanding debt situation. However, Spolana is very important for an outlet for ethylene from Litvinov. In the hypothetical event that Spolana was forced to stop production permanently it would mean that Chemopetrol would be left with surplus ethylene, particularly in view of the cracker expansion which is in progress. The only other pipeline connection from Litvinov is to BSL in eastern Germany.

**Plastics processing** A series of projects have been implemented in Poland since the start of the year adding volume to the demand for plastics. In March, the Royal Europa house factory at Polkowice started production of PVC construction materials. The 14 Canadian designed production lines that have been installed are expected to reach full production capacity of 12,500 houses of 150 square metres a house by the middle of the year. The US-Canadian company built the \$50 million plant in a special economic zone in Legnica. Royal Europa makes construction elements of PVC panels in the state of the art Royal Building System. The elements may be used in the construction of detached and semi-detached houses, in addition to office buildings, hospitals, etc.

Royal Europa was the first company to invest in the Legnica Special Economic Zone having been issued a licence to run a business on August 25, 1997. It purchased 15.7 hectares of land in the Polkowice Area. Royal Europa intends to invest \$43million in the Zone, and to employ eventually over five hundred people. Royal Europa's technology has been recently used to build a housing estate of 14 detached houses for VW Motor Polska workers. "Royal Europa" was set up in a merger of Canada's Royal Plastics Group Limited and the US American Building Products Corporation. The Canadian company is one of North America's five biggest construction materials' manufacturers.

The French company Plastivaloire is adding another site in Poland to the two existing plants for plastics' processing. The company manufactures TV cases at Kwidzyn for Phillips in northern Poland, and also industrial lighting parts at Ketrzyn which is near the Russian border. The Ketrzyn plant was bought from Phillips by Plastivaloire in 1998. In general, the fast growth in consumption within the Polish plastics' processing industry is leading to a high level of corporate change.

<b>Polish Chemical Output 1999 (unit-kilo tons)</b>		
<i>Product</i>	<i>Jan-99</i>	<i>Jan-98</i>
Plastics	76.9	73.0
PVC	22.2	23.9
LDPE	13.9	15.8
Caustic Soda	29.2	35.6
Pesticides	3.1	2.6
Lacquers	17.2	18.5
Detergents	28.8	27.3
Nitrogen Fertilisers	123.0	118.0
Phosphate Fertilisers	49.2	48.4
Synthetic Fibres	5.3	8.3
Synthetic Rubber	7.2	8.2
Total Oil Processed	1,290.0	1,288.0

The third plant is under construction at Krakow which is expected to start production in September this year. This unit will focus on assembling composite components for the electronic and automotive industries. In the context of Plastivale's total sales the Polish market is expected to account for 10% in 1999.

A \$4 million Italian technological line for recycling PET plastic bottles is being installed at the Hanex Plastic company in Sokolka, Podlasie province. The first such line to be installed in Poland may translate into a breakthrough for the profitability of PET bottle recycling. The new line, to be operational early in May, will enable the daily production to reach to six tons of foil for non-food containers, mostly intended for chemical products, and of polystyrene foil. Hanex Plastic started to recycle PET bottles 18 months

ago and has nine branches around the country.

### **Acrylic acid**

US company Tredegar Industries has invested Ft 2.6 billion to build a plant at Retsag in northern Hungary. The plant was scheduled to start producing diapers and other hygroscopic pads from the end of April this year. Tredegar has 14 plants in the world, the Retsag plant being its second in Europe. The plant will employ 37 people initially, which could increase to 70 when the plant works at full capacity. Tredegar's main client is Procter & Gamble, which is already running a diaper plant in Csomor.

In addition to domestic sales, the Tredegar plant will also export to West Europe, Central and South East Europe. Retsag was chosen for its geographical advantages, in that it is close to the border with Slovakia, and also for the local availability of skilled labour. The local self government enabled the immediate start of the construction work.

### **Company news**

The Polish government has expressed a readiness to approve a strategy of the privatisation of the chemical industry during the second half of this year. The Sejm Treasury Committee's announcements on a tender for privatisation advisors in the heavy chemical industry appeared on April 12. This concerns the chemical plants at Pulawy, Kedzierzyn, Tarnow Mosice and Police. The key role of selected advisors in the privatisation of these companies will be to prepare strategies of ownership transformations in respective companies. The government has stated that it is prepared to accept a privatisation strategy of the entire sector in the second half of the year, while the actual privatisation would be expected to take place in the year 2000.

The Hungarian pharmaceutical manufacturer Gedeon Richter reported sharply lower profits, sales and exports for the first quarter this year, but believes that the Russian market had begun a cautious recovery. Richter reported after-tax profits of Ft 4.484 billion for the first three months of 1999, down from Ft 6.476 billion a year earlier.

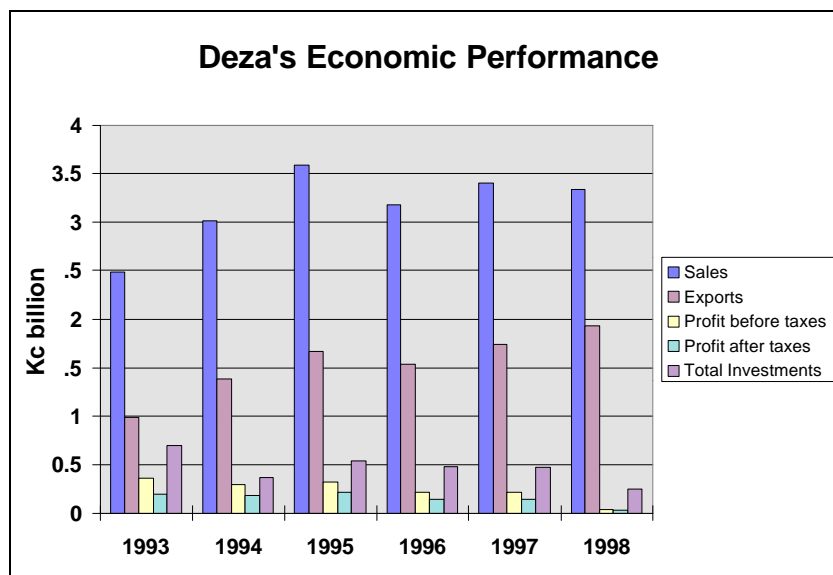
Richter's total sales fell to Ft 14.962 billion from Ft 16.648 billion, and exports to \$17.3 million from \$39.7 million. Much of the fall was due to the collapse of the Russian economy last year. However, Richter stated that sales in the first quarter to the CIS showed growth over both the third, and particularly the fourth quarters of 1998. Exports of \$14.6 million to the CIS were still a long way below the \$29.6 million exports to Russia it reached in the first quarter of 1998.

In the Czech Republic, AliaChem's subsidiary Synthesia at Pardubice lowered its loss by Kc 170 million last year to Kc 1.09 billion, while sales fell 5% to Kc 5 62 billion. Synthesia made redundant more than 1,000 people last year and plans to shed another 400 by the middle of this year. AliaChem as a group posted a pre-tax profit of Kc 413 million for the first quarter of 1999. The company reported a turnover of Kc 2.34 billion for the period. As AliaChem was founded on January 1, 1999 there is as yet no comparative historical data, but nonetheless the performance this year has been better than expected. The results were achieved due to improved efficiency of all branch plants at the end of the surveyed period, with the exception of Technoplast. Improved efficiency was achieved from the result of cost-cutting measures introduced at the end of last year, before AliaChem was formed.

The proposed sale of Deza a.s, at Valasske Mezirici, is still under review with a number of companies still showing interest. The prospects for the company have weakened considerably over the past eighteen months which is partly linked to the decline of the share price. There are suggestions that interested parties are waiting for further erosion in the share price before making a concerted bid, whilst other views propound that the management of Deza will try and retain its current status.

The first quarter results for this year have not helped Deza. Turnover declined from Kc 636 million in January to March 1998 against Kc 620 million this year. A pre-tax loss of Kc 57.4 million was recorded for the first quarter in 1999 against a profit of Kc 101 million in the same period in 1998. As can be seen from the following graphic investment and profits have been falling throughout the 1990s.

Total sales have risen since 1993, although export activity has taken on a more important role, accounting for more than 50% of shipments. In 1998 sales amounted to Kc 3.344 billion from Kc 3.407 billion in 1997. Amongst its major domestic customers, Deza currently sells 25% of its production to AliaChem. Exports were Kc 1.933 billion measured against Kc 1.739 billion in 1997.



## SOUTH EAST EUROPE

### **Petrochemicals**

At the end of March the privatisation of Neftochim was opened by the Bulgarian government. As for other privatisations in Bulgaria, the sale of Petrol has been postponed due to the failure to find an appropriate partner. Interested parties can place bids for a 58% stake in the Neftochim refinery and petrochemical complex up until June 7 this year. At least ten companies are expected to participate, with most of the interest being focused on the refinery. The privatisation is being handled by Arthur Andersen which is hoping to achieve the best possible price for the Bulgarian government. Over the past two years the government has been active in selling off as many enterprises as possible in order to raise funds for the state budget.

#### **South East Europe-currencies Apr 26th 1999**

Country	Currency	\$1=	EURO =
Bulgaria	Lev	1835.35	1954.37
Croatia	Kunar	7.1471	7.6081
Macedonia	Dinar	55.1968	59.8226
Romania	Lei	14800.0	15754.1
Slovenia	Tolar	180.651	192.516
Yugoslavia	New Dinar	10.9321	11.6276

The aims of the sale process are geared towards stimulating investment in Neftochim and promoting more profitable operations. Arthur Andersen has already completed the successful sale of the viscose fibre producer Svilosa. Russian interest in Neftochim is expected. For further information about the privatisation please contact James Blewett-Mundy, Arthur Andersen Project Office, National Palace of Culture, Administrative Building, 1 Bulgaria Square, 1414 Sofia,

Bulgaria. Tel +359 2 517 326, Fax + 359 2 519 032, E-mail: james.blewett-mundy@uk.arthurandersen.com.

A 5% import duty applicable to crude oil imports into Bulgaria has been lifted by the government which should help to boost Neftochim's financial position. The purpose is to cut production costs of crude which Neftochim refines into fuels, petrochemicals and plastics. The lower production costs are not expected to result in lower prices being charged by Neftochim, but should increase profit returns enabling debt repayment. The appeal for a lifting of the 5% import duty was made by Neftochim on the grounds that the company was at a disadvantage against fuel importers.

The Serbian petrochemical industry has been the target of NATO bombing with considerable damage

inflicted on the Pancevo complex. The Novi Sad refinery was the first of the two refineries to be attacked on April 6, with Pancevo coming firstly under fire in the middle of the month.

On April 16, the General Director of HIP Petrohemija, Dr Slobodan Tresac, issued the following account of what had happened.

"It is my duty and obligation to inform the domestic and international public that on April 15, 1999, at 22:40, NATO forces heavily bombarded the plants of the Petrochemical Complex in Pancevo which were in regular operation. Installations and equipment of the VCM plant and ethylene plant were hit directly. Indirectly, heavy and destructive explosions damaged the chlor-alkali plant and PVC plant, and buildings inside the complex, in addition to a large number of civilian houses and flats in the surrounding area.

A fire broke out and huge quantities of toxic materials such as chlorine, EDC and VCM flowed out. The transformer stations were also heavily damaged and toxic transformer oil flowed out. Unfortunately, but unavoidably, a large number of people were injured and affected. At this moment we do not know the exact number of civilians who were evacuated.

Due to the power failure, and interruptions to utilities and auxiliary fluids, a large volume of combustible, explosive and toxic materials remained entrapped in the equipment, installations and tanks. It will take a lot of time to drain these materials from the plants before they could be considered safe for the surrounding area. The plants have been heavily damaged and cannot be put into operation."

Further bombing of the petrochemical complex at Pancevo took place on the night of April 17/18, whilst also the fertiliser plant HIP "Azotara" was hit. Almost simultaneously sections of ammonia and VCM were both bombed, according to Serbian sources. Serious environmental consequences are occurring as the result of bombing. Black smoke emitting from the oil refinery and a lighter smoke coming from "Petrohemija" went through the region of Sodara and is going at the direction of river Tamis.

**Chlorine** BorsodChem has made another bid for Adriavinil in Croatia. However, there seems to be resistance from a combination of national concern that the plant should be sold to a foreign investor, and that the plant poses an environmental threat to the local region.

The proposed sale of Chimcomplex in Romania is still some way from being settled. BorsodChem has been interested in acquiring Chimcomplex but hurdles still remain. Chimcomplex is effectively divided into an older section of production and a newer section. The older section does need investment, particularly in relation to the improvement of environmental standards of production. The pending of privatisation of Chimcomplex may stop the planned 10,000 tpa maleic anhydride project going ahead.

This year, an \$18 million contract was awarded to Petron Sciencetech of New Jersey, USA, using Petron's butane based maleic technology in conjunction with BP Amoco catalysts. GTC (Houston) would be expected to provide the engineering. The reasons for Chimcomplex wanting to build a maleic plant is that the company consumes up to about 6,000 tpa for usage in plasticizers, veterinary preparations, and the MA based fungicide Captadin. Rather than having to buy on the merchant market the company has decided it would be more viable to have its own captive source. The problem is finding the right technology for such a small plant size of 10,000 tpa. With privatisation in the balance there are doubts whether plant construction will begin as planned this year.

**Fertilisers** In Serbia, the Prahovo chemical plant was forced to stop production of fertilisers and detergents due to the effects of the NATO bombing. The Sabac plant, Zorka Fertilisers, has also been forced to stop operations. Zorka produces NPK fertilisers, superphosphates, sulphuric acid, phosphoric acid, and plant protection agents. To add to these plants on April 25 chemical industrial facilities "Milan Blagojevic" of Lucani, near Cacak, were hit apparently by as many as five missiles in a few minutes.

A cost-cutting restructuring programme has been introduced by Chimco in Bulgaria aimed at reviving the company's fortunes. Measures include selling off ancillary units, such as recreation facilities and warehouses, and making 505 people redundant. Downsizing the staff to 1,770 will help the company save as much as 2,100 million leva per annum in wage and social security costs. High production costs at Vratsa makes Chimco's urea production non-competitive. Contracts signed with local farmers for the supply of urea through the Zemedelie Agriculture State Fund have helped boost Chimco's domestic sales. The initial agreement of January 20 was for 15,000 tons of nitrogen fertiliser for a sum of 6,000 million leva. Additional quantities were later agreed up and until late March Chimco had sold 33,968 tons of bulk and packaged urea.

Chimco has started repaying outstanding debts to Bulgargaz, although the plant is still running at a loss.

With natural gas prices at \$93 per thousand cubic metres Chimco's management argue that it is not possible to run at a profit in the light of current market prices for urea. A similar issue faces Agropolychim at Devnya, Agrobiochim at Stara Zagora, and Neochim at Dimitrovgrad. Neochim has managed in recent months to compete against imported fertilisers and overcome the problems of gas prices.

However, the main problem in Bulgaria is over-capacity in fertiliser production. For example, total capacity for ammonium nitrate in Bulgaria stands at 1.47 million tpa, but the domestic market is estimated to be only about 0.37 million tpa. Urea capacity is 900,000 tpa, with the domestic market estimated currently at only 50,000 tpa. Domestic demand has been in decline for the past few years, believed by economists to be the result of delayed reforms in the agricultural sector.

These companies can only survive, with over exposure to export markets, by a reduction of natural gas prices from Russia. The prospects for all four fertiliser producers in Bulgaria do not appear positive at present but there is a consensus suggesting that at least two, if not three, will manage to survive.

No decision has been reached on the privatisation of the Romanian methanol producer Viomet at Victoria. However, irrespective of the company's sell off the management has its own view of how the company should be restructured. The aim is to have more competitive products on the market, to reduce the production costs and to modernise production units.

Viomet to date has already cooperated with the European Bank for Reconstruction and Development (EBRD), which provided funds for a revamp of the methanol installation which increased production and decreased consumption costs. The company's broader development strategy has highlighted that it should develop the departments with the highest integration level, i.e. the supply chain starting with methanol through to melamine-formaldehyde resins. It was decided after targeted research that the markets for methanol, formaldehyde and resins were more attractive than most of Viomet's other business. This view resulted in the sale of some installations with a low degree of significance to the company. These installations included alkyd resins, ammonium bicarbonate, and polyethylene and polypropylene processing.

## **COMMONWEALTH OF INDEPENDENT STATES**

### **Russia**

Since last year's devaluation of the rouble Russian chemical companies have been relatively successful in regaining market share previously occupied by imports. Overall, the lowered value rouble is seen essentially as a positive development by domestic chemical producers, although conversely this has had negative consequences for foreign companies exporting into Russia.

The main limitation to market expansion is cash liquidity, with the majority of sales being done in the domestic market on a barter or non-cash basis. As a result, some Russian producers are almost forced to engage in export activity in order to receive liquid payments, even if losses for these shipments are being incurred. However, as most of the major plants are located in the middle of Russia exports are not a logical option, at least for commodities. Initial fears in the West that a low valued rouble would spark a wave of export activity from Russia have not materialised. In financial terms, total chemical exports from Russia amounted to \$4.7 billion in 1998, representing an 8% decline against 1997.

The Russian chemical industry might best be described as a sector in transition. More companies are being declared bankrupt, which is often a blessing in disguise. The process of bankruptcy can lead to the appointment of an external management team which is given a stipulated period to try and inject life into an ailing complex. Effectively, the external management teams can take radical decisions regarding production, etc, which probably should have been made several years before.

Terms such as "integration" and "restructuring" are commonly associated with improving the running of Russian chemical companies. Essentially, the Russian chemical industry can be broken down into four or five main regions and each of these regions is striving towards a more local approach of improving performance and economies of scale. In the Nizhniy Novgorod region the Volga Petrochemical Company has been promoted over the past few months as an institution capable of injecting greater efficiency into the local chemical companies. Further down the river Volga another group was established at the end of March this year to co-ordinate the chemical companies of the Samara region. The Samara region is the key distribution centre of inter-regional and exported crude oil flows in Russia, and considered to be about the third largest centre for the petrochemical industry in Russia.

Due to the significance of the chemical industry to regional economic performance local companies met in Togliatti on March 30 to form a holding company called Volgomezhregionkhim. Volgomezhregionkhim's raison d'être is to serve as a co-ordinator for implementing cartel agreements between enterprises, and to develop proposals for international investment projects. It appears that this holding company will be

connected closely to the plans of the Samara Oblast Administration, which wants to play a co-ordinating role in the petrochemical activities in the Volga region. Activities of the holding group are expected to start in the second half of the year.

### **Oil refining**

The reduction of Russian oil exports by 100,000 barrels a day, as from April 1, is intended to have a positive impact on domestic oil refining which was in decline in 1998, particularly following devaluation. Aside increasing the volume of oil products the Ministry of Fuel and Energy hopes that the reductions will have the effect of improving the feedstock position for Russian petrochemical producers. The Ministry of Fuel and Energy will review the position on oil exports at the end of the second quarter. The cuts have already been questioned by Russia's leading producer LUKoil. However, measures do seem to be needed to protect domestic refining volumes. In the first two months of 1999 Russia refined 26.375 million tons of crude, down 1.7% on the corresponding period in 1998.

In Tatarstan, Tatneft's share price has been on the rise since the start of the year consolidating its status as third Russian blue chip company in the oil sector after LUKoil and Surgutneftegaz. Rouble devaluation makes crude oil export extremely profitable for Russian companies. Tatneft maintained crude oil output stable at 24.44 million tons last year, representing a fall of just 0.4% against 1997 output. At the same time exports rose by 34% from 6.28 million tons in 1997 to 8.43 million tons last year. Through 1999 Tatneft expects to extract 24.5 million tons of crude. In February this year, Tatneft took a major step to solve its main industrial problem which is a lack of downstream assets. Tatneft signed an exchange deal with the Central Fuel Co (CFC) which will give the Tatarstan company a 13% stake in the refining based CFC. This deal will also give Tatneft access to the lucrative and solvent Moscow market.

### **Olefins**

Indications have started to emerge that leading olefin producers in Russia are benefiting from last year's devaluation, with feedstock prices having not kept pace with the increase in olefin derivative prices. Partly for this reason the Russian Ministry of Fuel and Energy is keen to ensure that feedstock limitations do not stand in the way of petrochemical output. This is one of the reasons why it is trying to push more domestic refining. Redirecting oil output away from exports not only can help increase capacity utilisation at petrochemical plants, but it is also consistent with OPEC's goal of maintaining higher crude prices.

The weaker placed olefin producers such as Angarsk Petrochemical Complex in the Irkutsk Oblast, still suffering from the involvement of SIDANKO, have seen only minor change since devaluation. Apart from the general negative investment climate in Russia, Angarsk Petrochemical Complex owes vast sums of outstanding taxes, which suggests that any ethylene capacity expansion is unlikely to progress short term. Last year, the US Trade & Development Agency provided partial funding (\$200,000) for a study on modernising the Angarsk complex. Lummus Crest conducted the study.

Neftekhim's olefin complex in the Nizhniy Novgorod region is working sporadically, depending on feedstock availability. 1998 data is still not available, but in 1997 Neftekhim produced 53,400 tons of ethylene, 29,600 tons of propylene, 20,800 tons of benzene, 18,400 tons of butylene butadiene fraction, 670 tons of ethylene oxide, 8,900 tons of MEG, 800 tons of DEG, and 60 tons of TEG.

In January this year the petrochemical industry in Tatarstan was given support by the local republican government in Kazan for a development programme in the period 1999-2000, researched by OAO "Tatneftekhiminvest-holding" at the end of 1998. As an autonomous region the petrochemical industry plays an important part in contributing to the state budget. At the same time the shortage of resources, and the low level of inter-republican co-operation between the petrochemical plants means that utilisation of production capacities is on average only about 60%.

The main objectives of the development programme for the chemical industry in Tatarstan are to resolve the problem of resource deficit, to reduce production costs and to find new markets. Under the present scenario the local government recognises that it is important to utilise the capacities as much as is possible, whilst also increasing greater co-operation between petrochemical plants. Oil prices in the republic are lower than elsewhere in Russia but the government is keen to bring prices into line with the rest of the country. Although the possibility of investing in the petrochemical industry by republican banks is not huge, the potential remains.

The concept of creating a republican petrochemical holding company in Tatarstan, including Nizhnekamskneftekhim and Kazanorgsintez, has been an issue on the agenda for several years. As the leading petrochemical company, Nizhnekamskneftekhim enjoys support of the local government of Tatarstan. The local government has been planning to establish two large petrochemical groups in the republic, one of which [Nizhnekamskneftekhim](#) is likely to be the leader. Other participants would include Nizhnekamskshina, Kazanorgsintez, and the Kirov Plant of Synthetic Rubber.

If a large holding company is established in the republic, there is a consensus that Nizhnekamskneftekhim will improve its financial standing. However, there is much uncertainty in whether the company will be



formed. The tender to sell a 51% stake in Nizhnekamskshina may lead to foreign involvement which may not support the idea of joining the group. Moreover, Nizhnekamskshina may be reoriented towards foreign synthetic rubber which is much cheaper. Thus, the picture is not entirely straightforward.

The current ownership of Nizhnekamskneftekhim consists mainly of the Tatarstan government (35.4%), individuals (35%), Tatneftekhiminvest Holding (3%), TAlF (10%), and Nizhnekamskneftekhim & Co (11%). Nizhnekamskneftekhim is mainly engaged in producing synthetic rubber. In 1997, it produced 182,600 tons of synthetic rubber, which constituted 25.9% of Russia's total output. Its products include butyl rubber, isoprene rubber, and also ethylene-propylene rubber. The rubber is mainly delivered to domestic tyre makers, such as Nizhnekamskshina, the largest consumer in Russia of isoprene rubber.

In terms of significance as Russia's leading petrochemical producer Nizhnekamskneftekhim accounted in Russia's output for 23.9% for ethylene in 1997. Other products included 21.8% of benzene, 27.7% of propylene, 20.2% of butadiene, 50.3% of isoprene, and 89.3% of styrene. Nizhnekamskneftekhim's main consumers of such products are Kazanorgsintez, Salavatnefteorgsintez, and Sintezkauchuk from Togliatti. Exports play an important role for the company, even if losses are incurred due to international prices being below the costs of production. However, due to economic circumstances the company cannot halt selling its products abroad, because it is almost the only source of cash. In the domestic market, barter operations are estimated to account for more than three quarters of sales.

Nizhnekamskneftekhim Export Activity						
	1995 (ktons)	% in output	1996 (ktons)	% in output	1997 (ktons)	% in output
Polyisoprene rubber	23.3	22.08	28.0	19.56	23.8	18.39
Butyl rubber	32.7	80.54	30.7	72.24	27.6	54.55
Styrene	49.8	41.12	79.4	67.23	57.8	39.97
Mono ethylene glycol	27.1	44.35	68.4	57.43	59.3	40.90
Propylene oxide	18.5	60.46	13.6	43.59	7.2	22.02

Tatarstan's second petrochemical producer is Kazanorgsintez, which is also Russia's second-largest producer of ethylene on the basis of 1997 data. In 1997, Kazanorgsintez produced 289,000 tons of ethylene, with Nizhnekamskneftekhim producing 300,300 tons. But Kazanorgsintez is Russia's largest consumer of ethylene with the need to buy additional ethylene from Nizhnekamskneftekhim to meet its own demand. The two companies are connected by a pipeline. Kazanorgsintez is also Russia's second largest producer of acetone and phenol.

**Polyethylene** Domestic consumption of polyethylene is estimated to have improved against 1997 although what scale is yet to be confirmed. However, exports have been down with lower volumes being shipped to China, Russia's major export destination for polyethylene. In 1997, Russian exports amounted to 10,677 of HDPE and 89,459 of LDPE and in 1998 these volumes fell to 2,579 tons and 54,150 tons respectively. The LDPE exports are done almost exclusively from the Angarsknefteorgsintez plant in the Irkutsk Oblast which has been incurring raw material difficulties in the past year. It would suggest therefore that although Russian production may be slightly lower domestic consumption is on the rise due to the reduced volume of imports. Current market prices for Russian HDPE and LDPE are standing in the range of 10,000-12,000 roubles per ton.

**Other thermoplastics** PVC markets in Russia have seen no change with prices ranging from 7,000 roubles per ton to 8,000 roubles per ton. Prices of PVC out of Sterlitamak are starting at 7,000 roubles per ton for large buyers, on an ex works' basis and before VAT. However, Uralkhimprom is offering PVC from Sterlitamak at 7,800 roubles per ton. Further details: Aleksey V. Khorkov, Uralkhimprom, Tel +7 3432 70 72 40, Fax +7 3432 70 72 41, E-mail: chim@mail.ur.ru. Polystyrene is being offered by trading company Mayak in quantities of 1,000 tons per month at a price of \$730 per ton DAF Ukraine. Further details: Dmitri Vasiliev, Deputy Director, Mayak, Tel +7 3832 106 220, E-mail: fabian@center-f1.ru.

**Propylene derivatives** On April 28, the President of LUKoil the and Governor of the Saratov region signed a protocol stipulating for LUKoil-Neftekhim's intention to acquire the assets of Nitron petrochemical plant. This protocol is a follow-up on the cooperation agreement signed between the government of the Saratov region and LUKoil on June 25, 1997. Nitron, founded in 1953, produces phenol, «Nitron» synthetic fibers, and methylmethacrylate products.

Since April 1998, LUKoil-Neftekhim has been participating in the management of Stavropolpolimer petrochemical plant in Budyennovsk. Over this period the plant reached its designed capacity in ethylene, propylene, polyethylene, and vinyl acetate production. A target of LUKOIL-Neftekhim is to



restore 'traditional links' between Stavropolpolimer and Nitron, and production cooperation between the petrochemical plants of Saratov, Budyennovsk, Volgograd and Perm.

### **Synthetic rubber**

One of the major links in the chain for the creation of a petrochemical holding company in the Republic of Tatarstan is the performance and developments at the of the tyre manufacturer AO "Nizhnekamskshina". In 1998, the company produced 8.2 million tyres and in 1999 the plan is to increase production by one million. However, last year AO "Nizhnekamskshina" reported pre-tax losses of 143 million roubles against a pre-tax profit of 176 million roubles in 1997. The company's sales also contracted 17% from 3,979 million roubles to 3,280 million roubles. Short-term liabilities grew significantly as a result of the rouble fall and constituted 2,484 million roubles as of January 1, 1999. The company is seeking to expand, but it does need the support of an external investor.

A trading company called OOO "Neftekhimicheskii Kompania" is offering a wide range of synthetic rubbers, including polyisoprene, styrene-butadiene-styrene and methylstyrene-butadiene rubber. In addition, MEG, DEG, TEG and butanols are being offered. Further details: Igor Alekseychik, OOO "Neftekhimicheskii Kompania", Tel +7 8432 645580, Fax +7 8432 64558, E-mail: isalmanov@intechbank.ru.

Traders OOO "SKS" are offering ABS produced at the OAO "Salavatnefteorgsintez" plant, on a cash payment or veksel basis. Further details from Pavel Silantyev, Director, OOO "SKS", Tel +7 347 902-2234, Fax +7 34763 33859, E-mail: pasha@salavat.bashnet.ru. Other products include polyisoprene at 14,000 roubles per ton produced by AO "Kautschuk" at Sterlitamak.

### **Chlorine**

Despite transport cost problems which is preventing long haul shipments Usolyekhimprom in the Irkutsk Oblast is still offering caustic soda, in addition to its other product range including trichloroethylene, hydrogen peroxide, calcium hypochlorite, etc. Further details: Vladimir Morozov, Head of Marketing Dept, OAO "Usolyekhimprom", Tel/Fax +7 39543 6-98-26, E-mail: ximprom@mail.tehserv.irtel.ru.

Trading company Derzhavniy claims strong connections in the Volgograd region with the chemical producers Kaustik and Khimprom. With Kaustik Derzhavniy has a trial contract for 200,000 roubles worth of business. If it is successful in concluding sales it could lead to a contract for a larger volume of trade, in the region of 500-700,000 roubles. Products being offered from Kaustik include caustic soda. Dependent on volume a discount could be offered by Derzhavniy of up to 15% off the plant price. For Khimprom Derzhavniy has a similar arrangement of up to 500,000 roubles of business. Khimprom's product are based largely on chlorine and include PVC. Further details: Konstantin Mikhailovskiy, Derzhavniy, Tel +7 812 114-29-26, 114-38-25, Fax +7 812 114-00-11.

Of the caustic soda producers in Russia one of the more modern plants is the Khimprom plant at Novocheboksarsk. Khimprom was awarded the prize by the Ministry of Foreign Economic Relations as the best Russian exporter in 1997. Khimprom still channels a large part of its sales through independent traders, but their share has been reduced to 45-50% from 70% at the beginning of 1996.

In addition to caustic soda other products include methylene chloride, aniline and chemical reagents. A joint venture has been created with Du Pont for the production of herbicides which has already started production activities. The company can be contacted at: Mr Igor A. Jeltukhin, Director, Khimprom, Ulitsa Promyshlennaya 101, 418900 Novocheboksarsk, Chuvash Republic, Russia, Tel +7 8350 77 55 13, Fax +7 8350 77 50 05, 21 28 74, E-mail: ipchem@cheboksary.chuvashia.ru.

In 1996 Khimprom was on the verge of bankruptcy and operations had to be turned over to external management in order to solve the financial problems. The initial results of this restructuring not only helped pull the company from bankruptcy but also had a positive impact on improving production. Sales volumes are on the rise; operating efficiencies are improving; and debt is declining. Export potential should vastly increase as current ventures with both foreign and CIS countries continue to develop and new projects are implemented.

Khimprom was previously involved in producing chemical weapons. However, over the last three years, Khimprom discontinued its chemical production for military purposes and now focuses solely on consumer goods and plant protection agents. In manufacturing more than 300 goods, Khimprom maintains a diversified range of consumer and agricultural products. Khimprom holds a monopolist position in Russia and the CIS for cationic dyes and methylene chloride. Khimprom controls about 50% of the Russian and CIS market for herbicides.

### **Methanol & fertilisers**

Creditors of AO Azot at Kemerovo in the Kuzbass region have approved a decision to replace the fertiliser plant's court appointed trustee manager. The intention is to submit a new candidate to the court, which is expected to be the head of Kemerovo region's main industrial administration Anatoly Gubkin. The existing manager was accused of failing to carry out the approved recovery plan. The plant's capacity was utilised at just 31% over the period of his tenure, i.e. by 130% less than had been planned. Losses accumulated, and the plant has fallen behind in repaying back

wages and debts to creditors. Total payables stand at 2.6 billion roubles. Azot was placed under external management in July 1998 for 12 months. Creditors include the government, AO "Kuzbassenergo", and the Kuzbass branch of the West Siberian railroad. In 1998, Azot produced 167,000 tons of mineral fertiliser, which was 30% less than in 1997. Production of urea was 164,000 tons of urea (36% of capacity) and caprolactam reached 36,500 tons (29% of capacity).

According to preliminary figures, AO Silvinit at Solikamsk produced 1.42 million tons of potash fertiliser in 1998, an increase of 13.2% on 1997. Earnings totalled 2.05 billion roubles, compared to 1.1 billion roubles in 1997. The company's biggest shareholders are divided between AO Deposit Clearing Company with 14.67%; AO Uralkaliy with 12.1%; Austrian Beteiligungs und Handels with 10.01%; US Royalpat with 10%; AO Metafrax with 6.06%; and individuals holding 14.3%.

In the domestic market methanol prices remain at levels starting from 900 roubles per ton. The company NTM is offering methanol produced at Tomsk at a price of 950 roubles per ton, inclusive of VAT. Payment methods to be considered include barter and promissory notes. Further details: V N. Khudoley, NTM, Tel +7 3822 42 72 02, Fax +7 3822 41 93 57, E-mail: vladimir@hvn.tsk.ru. Tomsk Petrochemical Combine is looking for direct buyers of methanol, LDPE, polypropylene, and urea-formaldehyde resins. Further details available from: Irina N. Knira, Head of Marketing Group, OAO "Tomsk Petrochemical Combine", Tel +7 3822 73 01 77, Fax +7 3822 73 01 06, E-mail: tnk@mail.tomsknet.ru.

OAO "Shchekinoazot" is offering 10,000 tons of methanol for export. Further details: O B. Gorobchuk, Tel +7 095 275-84-06, E-mail: bva@binvm.rtsnet.ru. OAO "Ivkhimprom" is offering urea-formaldehyde resins. Further details: E A. Serebryakov, Head of Marketing Dept, OAO "Ivkhimprom", Tel/Fax +7 932 300940, E-mail: market37@ivkhimprom.indi.ru.

**Plastics** Increased captive consumption for polyethylene is expected by OAO "Kazanorgsintez" following the start this year of large scale production of a new type of polyethylene pipe intended for application in gas pipes. The official identification "PE-80" was received at the end of January from a joint commission of the Russian Federation State standard, the Tatarstan centre of standardisation, metrology and certification, Gosgortekhnadzor of the Russian Federation, and leading institutes involved in developing polyethylene and gas pipes.

Kazanorgsintez is Russia's leading producer of polyethylene and polyethylene tubes. In 1997, it produced 17,100 tons of polymer tubes (55.88% of Russia's total output), down 4.5% from 1996. Over the past four years, domestic demand for polymer tubes has been constantly rising, and not greatly affected by last year's crisis. In 1997, Russia's consumption of such tubes was 38,100, up 21.3% year-on-year.

Gazprom's subsidiary Mosgas, which controls the pipeline system in and around the major Russian cities, has an agreement with Gaz de France for applying polyethylene inside the old pipeline. This system has proved extremely effective. The new pipes produced at Kazan are capable of standing the pressure in eight atmospheres and have many advantages in comparison to their metal counterparts. The expected life span has been estimated in the range of fifty years. The period required for constructing networks made of polyethylene is two or three times less than based on traditional materials. In addition, during their laying, no protection is needed from stray currents, isolations, which must be renewed every 15 years. In terms of cost, the use of polyethylene pipes in constructing gas pipes is on average about 40% cheaper.

The Russian government has entreated the oil and gas sector to increase the construction of gas distribution networks to 175,000 kilometres by the year 2000. 45,600 kilometres should be laid with polyethylene pipes. Thus, the new product being produced by Kazanorgsintez is expected to be in high demand. The demand for polyethylene for lining gas pipelines has been growing in Russia as it has become apparent that a polyethylene lining in an old steel pipeline can solve the problem of degradation. The need for pipeline modernisation is also stimulated by the huge loss of gas to the atmosphere, including a small percentage of hydrocarbons.

**Consumer based products** Tasma at Kazan, which is the only Russian producer of photo film yielded the first batch of fluorographic film after a long stoppage. The batch was immediately bought up by consumers from Tula and Kurgan. The value of outstanding orders is placed at 500 million roubles. The restart of production at OAO Tasma-Holding is largely the result of the appointment of an external management to the company. It is expected that the enterprise shall expand production whilst being exempted from payment of taxes and debts.

Until 1990, Tasma produced over 200 brands and employed around 9,000 people. The August crisis of 1998 drastically changed the position of Tasma on the Russian market with products by foreign competitors becoming much more expensive. In the October-December period of last year the enterprise received orders for only half billion roubles. However, the market is gradually improving and the management team of Tasma expects to fulfil the plan of revival.

Eastman Kodak has halted construction on a \$10 million unit at the Slavich factory site in Pereslavl-Zalessky, in the Yaroslavl region, Slavich. Kodak has already invested \$2 million in the project. This was to become the first Russian plant to produce chemicals for negative and positive film, to produce photographic paper, and to prepare and package chemicals for mini-laboratories. The site of the plant was acquired under a long term lease by Eastman-Kodak, which is financing the project 100%.

The decision to stop construction is based on the imposition of high customs' duties, combined with an unfavourable dollar-rouble exchange rate which has led to an approximate 300% price increase at the company's photo labs. Furthermore, the company's activities in Russia are being hindered by aggressive speculators in the grey market for colour photographic paper. Despite these setbacks this is still a long term project for Eastman-Kodak, probably of ten years. Kodak has taken a long term lease on the 20,000 square metre facility. It has been necessary to review the company's expectations that turnover at the plant would reach \$120 million by 2000.

**Pharmaceuticals** The Hungarian pharmaceutical manufacturer Gedeon Richter has taken over full control of a company called Farmograd, near Moscow, which it hopes to use as a base for developing the Russian market. Richter bought 62% of Farmograd in 1997 for starting pill and drug production, and recently acquired the remaining 32%. Richter sees very strong potential in the Russian market despite last year's financial crisis. There is also an expectation that the Russian government will introduce import surcharges to protect local producers.

CIS- currencies Apr 26th 1999			
Country	Currency	\$1=	EURO =
Azerbaijan	Manat	3950	4204.78
Belarus	Rouble	220000	234198
Kazakhstan	Tenge	114.75	122.151
Russia	Rouble	24.9300	28.5380
Ukraine	Hryvnia	4.0625	4.3246
Uzbekistan	Sum	570.00	606.765

Other manufacturers that are expanding include ICN-Polifarm at Chelyabinsk which plans to increase its production capacity by 45% in 1999, to 80 million units of packaged medicines. The company is to launch a new production line which will allow the company to begin production of tablets with a protective coating. ICN-Polifarm plans to increase sales in the CIS and adjacent markets. The company sold 46% of its products in the Urals' region in 1998, with the remainder

being sold elsewhere in Russia. At the moment, ICN-Polifarm has four stores in Chelyabinsk and plans to open another in Magnitogorsk by the end of May.

**Transport** At the Russian Far East port of Nakhodka, several companies have created a joint stock company called "Skiff-Zest" to build a new chemical terminal. "Skiff-Zest" is seeking possible partners and investors that would want to participate in the project. The company has said that it will consider any liquid chemical goods of the third category of danger, and also oil products. Further details: Oleg A. Zolotarev "Skiff-Zest" Tel +7 4236 64-23-63, 62-91-52 Fax +7 4236 67-04-06, E-mail: zolotan7@gin.infosys.ru.

## Ukraine

Industrial production in Ukraine fell 2.4% in the first quarter compared to the first quarter of 1998. The fall was especially noticeable in the chemical and petrochemical sector with a 13.6% decline, followed by the engineering sector at 5.5%, and the ferrous metallurgy sector at 5%. Production fell in the Ivano-Frankovsk Oblast by 28.2%, largely the result of low output from the Oriana petrochemical complex at Kalush.

Although the economy remains in poor state, the prospects for projects are better placed in Ukraine than in Russia simply because the government has not defaulted on loans. Furthermore, in the second half of the 1990s the Ukrainian government formed a series of free economic zones (FEZ) which have been exempt from certain types of taxation and have been created with the view of encouraging investment. For example, the Sivash FEZ of Crimea has allowed developments to take place at the soda ash plant, claimed to be the largest in Europe. Crimea also houses the Sivash aniline plant, and the Titan plant at Armyansk which produces titanium dioxide.

At the start of April LUK-Sintez Oil Ltd acquired a controlling interest (51.9%) of the Odessa oil refinery. LUK-Sintez Oil Ltd is a joint venture of LUKoil International GmbH (60%) and a British company Sintez (40%). LUKoil International GmbH is a 100% owned subsidiary of LUKoil Oil Company. Participation in the share capital of the Odessa refinery will allow LUKoil to expand petroleum products' markets in Ukraine and other CIS countries, and to utilise capacities for processing of crude extracted in Kazakhstan and Azerbaijan.

The refinery (throughput capacity is 3.8 million tpa) specialises in the production of motor gasoline, diesel fuel, fuel oil, oil bitumen, and liquefied gas. Odessa ranks fourth in Ukraine in terms of oil refining volumes. Crude is supplied to the refinery via the Kremenchug-Snegirevka-Odessa oil pipeline. In 1998, the Odessa refinery produced 294,400 tons of motor gasoline, 594,600 tons diesel fuel, 2,200 tons of aviation kerosene,

31,900 tons of oil bitumen. The refinery employs 1,126 people. In the course of the refinery upgrade diesel fuel and jet fuel purification units were built in 1994. According to investment provisions of the bidding, LUK-Sintez Oil Ltd. is obliged to invest \$1.2 million in the refurbishment of the Odessa refinery and to supply 2.4 million tpa of oil.

## Central Asia

Resulting from a decision by the Turkmen president the Turkmen Chemical Industry Association (Turkmenkhimsenagat) has been disbanded with the transfer of the individual enterprises to the Ministry of Power Engineering and Industry. The aim of this transfer is ostensibly to improve the efficiency in the domestic chemical sector, although it does seem to be more representative of political manoeuvring. The Ministry of Power Engineering and Industry has been instructed to set up a self financing directorate within the ministry to sell mineral fertilisers.

## Azerbaijan

At the recent conference on Central Asian Oil Refining and Petrochemicals Azerikhimya reiterated its emphasis on the development of the petrochemical industry on the basis of local raw materials. Simultaneously, Azerikhimya is in discussions with foreign partners regarding possible projects. Some projects represent modernisation plans whilst others are new units, utilising existing monomer feedstocks. For instance, polystyrene is considered a potential product area which could be attached to the styrene monomer plant at Sumgait.

*Priority projects at Sumgait consist of the following :*

- The construction of a steam generator and ethylene storage tanks at the Sumgait Ethylene-Propylene complex. This project will be undertaken with the participation of Nichimen and Chiyoda Corporation and finance will be provided partly by the Exim Bank of Japan.
- The reconstruction of the Ethylene-Polyethylene facilities, with an increase in capacity and a reduction of cost expenditure on raw materials. Chiyoda Corp and Nichimen have already completed studies for the modernisation of a petrochemical industry in Azerbaijan. Nichimen is responsible for the modernisation of the polyethylene facilities. The ethylene upgrade plan from 260,000 to 400,000 tpa at Sumgait is scheduled to take place in 1999, but as of yet no financial backer has been secured.
- The construction of a polypropylene project (100,000 tpa) by Tecnimont, using propylene from the Ethylene-Propylene Complex

The construction of new chlorine and caustic soda facilities based on the membrane method is also a priority with these products playing an important role in the Azeri chemical industry. The US Trade and Development Agency has approved funding for a 'Definitional Mission' to look at proposed feasibility studies on three projects at Azerichimia. ECI Environmental Compliance Inc has been selected to perform the Definitional Mission. The final report was expected to be available by late April this year.