

# CIREC

## MONTHLY NEWS

Chemical Industry News for Central Europe, South East Europe and Eurasia

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- ✚ SIBUR has requested to the government to cancel export duties for dry hydrocarbon gas.
- ✚ Polyethylene production increased 5.4% in the first eleven months of 2008 against 2007, although a 3.6% drop was noted in November
- ✚ PVC prices started to fall in September and at least for the first quarter of 2009 are expected to remain under pressure
- ✚ SIBUR-Holding withdrew from the methanol market on 18 December 2008, by selling its 33.46% stake in the JV Sibmetakhim.
- ✚ Nefis Cosmetics at Kazan has revamped its stearin unit, aimed at reducing purchases on the open market.
- ✚ Biaksplen has expanded its ownership of BOPP plants in Russia by acquiring Novatek-Polymer from Novatek
- ✚ In November 2008, a new BOPET plant was started at Zhukov on border of the Moscow and Kaluga areas.
- ✚ The Omsk polypropylene plant is expected to come on stream at the start of 2010, according to joint announcements made by the Omsk administration, Titan and Tecnimont.
- ✚ Local environmental support has been granted to Shchekinoazot for investment projects into cyclohexanone, methanol and phenol-formaldehyde resins
- ✚ Nairit in Armenia has closed its chloroprene rubber plant until 1 February
- ✚ Karpatneftekhim intends to cut by over a thousand jobs due to the stoppages in production which started in the first half of 2008

## CENTRAL & SOUTH EAST EUROPE

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### Petrochemicals

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#### Gas supply, East Europe

The reductions in Russian gas deliveries to Europe, as the result of the Russian-Ukrainian dispute, threatens lower availability for chemical plants in Central & South East Europe. Although most countries have storage facilities the longer the dispute continues, the more chance that chemical plants will receive less gas. Gazprom halted supplies to Ukraine on New Year's Day, saying Ukraine had failed to pay its gas bill and talks on 2009 gas prices had broken down. South East Europe has faced the biggest problems to date. All supplies of Russian gas delivered through Ukraine to Bulgaria, Turkey, Greece and Macedonia were halted on 6 January. Romania was initially suffering reductions of Russian gas by 30-40%, before a complete halt took place on 7 January. Fertiliser plants were already feeling the effects of the weak market, and the gas supply problems have made some producers decide to stop production temporarily.

Poland is heavily dependent on Russian natural gas, importing nearly two-thirds of its annual requirement of around 14 billion cubic metres. About 40% of that gas is shipped via Ukraine, although Poland could import an additional 2 million cubic metres of gas a day through Belarus should the dispute continue. The gas monopoly PGNiG said that its storage tanks were 85% full, enough to supply Polish customers for weeks if supplies stopped altogether. PGNiG nevertheless has asked its main industrial clients to limit gas usage due to lower supplies. Anwil consumes around 500 million cubic metres of gas per year, but it is conducting a maintenance shutdown of one of its fertilizer production lines, reducing its demand for gas. If the crisis last longer, Anwil will delay reopening its second line. The line is scheduled to restart at the end of January. PKN Orlen will see its gas supplies cut by as much as 28%. The supplies will be cut to 72,000 cubic metres an hour from the normal level of 95,000-100,000.

Slovakia has imposed a restriction on gas consumption at Slovnaft, after imports from Russia via Ukraine were stopped on 7 January. For Slovnaft, which consumes more than one million cubic meters of gas a day, has reduced performance at its production units, but the refinery is running normally. MOL in Hungary is faced with less stringent restrictions.

Similar disputes between Russia and Ukraine have taken place almost on an annual basis in recent years, and solutions have been found quickly. Gazprom says it has held talks with its Ukrainian counterpart to try to end solve the problem, whilst the EU is trying to bring the two sides together. For the longer term, Gazprom currently has two new gas pipelines under construction; the Nord Stream pipeline, which will run from Russia's Baltic port of Vyborg to Greifswald in north Germany, and the South Stream, which will cross the Black Sea into Bulgaria and then split, going to Austria and also Greece.

#### Gazprom-Neft, takeover of NIS

Serbian officials and Gazprom-Neft initialled a contract on 22 December for the sale of a majority stake in NIS. Gazprom-Neft agreed to pay €400 million for a 51% stake in NIS and has pledged to invest €550 million by 2012 to modernise its refineries, aside commitments towards the Petrohemija complex. NIS is the last of the state-owned oil companies in the Balkans to be sold. It was given a monopoly on processing oil derivatives until 2010 in order to recover from NATO bombing in 1999 after its refineries were heavily damaged. It will give Gazprom-Neft control of NIS in return for Serbia's inclusion in the South Stream gas pipeline. The parties also agreed on construction of a gas storage facility in northern Serbia.

#### PKN Orlen petrochemical strategy

PKN Orlen's position in the petrochemical sector will be determined by investments in new products and efforts to improve efficiency, and a strategic withdrawal from the chemical business. The reasons given by PKN Orlen for divestment of the chemical division (including Anwil and Spolana) is the lack of synergy between PVC and fertilisers and refinery/petrochemical operations. It also needs to be noted that due to the heavy investment schedule up to 2013, the group has decided upon the need for disposals.

The group has reduced its annual capital expenditures forecast for the next five years as part of the 2009-2013 strategy. Expenditures to be made between 2009 and 2013 will amount to zł.12.6 billion, compared to the zł.21.3 billion planned in the 2007-2012 strategy. In the petrochemical sector, the group is heavily

dependent on the competition of the new paraxylene and PTA facilities, which have direct links to the refinery base. The PX/PTA installations will help increase EBITDA to around zł 2.7 billion by 2013. The polyolefin plants belonging to BOP and Unipetrol will also be improved and further integrated.

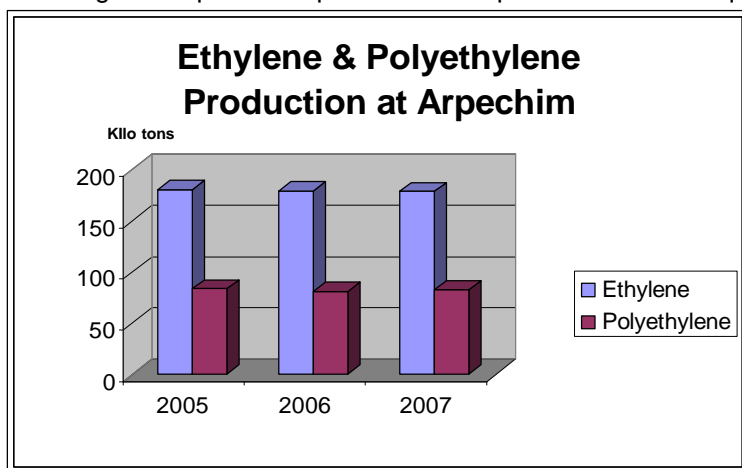
In order to pursue the best possible crude feed policy, PKN Orlen will conclude long-term crude oil contracts including highly discounted contracts. One of PKN Orlen's main objectives will be to secure at least two suppliers for each refinery to secure and optimize supply structures.

Key investments in logistics include building a product pipeline from Mazeikiu refinery to a sea terminal, which will enable increases in export volumes and reductions in transportation costs. New product pipelines will also be built in Poland, between Ostrów Wielkopolski and Wrocław, and Boronów-Trzebinia. The group is planning to improve usage of existing and newly built caverns to improve service storage needs and gain more from the market cycles of stored products.

#### **Oltchim-Arpechim**

Oltchim has approved plans to borrow around €100 million in order to take over Petrom's petrochemical facilities of the Arpechim refinery at Pitesti. The loan, to be guaranteed by its assets and export contracts, will be used for financing the acquisition of petrochemical operations and for required working capital. Petrom has confirmed the negotiations with Oltchim for selling

Arpechim Pitesti adding they want the transaction to be completed as soon as possible, providing that Oltchim secures the required funds.



Petrom concentrates the petrochemical activities of Arpechim, one of the two refining units of Petrom, into the company called Petrochemical Arges. Whilst it is the main supplier of raw materials for Oltchim, it is not willing to allot funds for upgrading Arpechim's petrochemical division. Ethylene and polyethylene production trends at Arpechim are shown in the graphic opposite.

Production for 2008 will be much lower due to the stoppage at the cracker in the fourth quarter.

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### **Chemicals**

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#### **Oltchim-profit goals 2009**

Oltchim has estimated that it will achieve turnover of €538 million in 2009, 1.5% higher against the level expected for 2008. This is despite the fact that the chemical plant will operate at lower capacity in the first two months of 2009 and resume full operations only by March at the earliest. The company's strategy for 2009 relies on maintaining the client portfolio, including those markets which face the biggest difficulties. It forecasts profits this year, after two consecutive years of losses, due mainly to lower oil prices.

Oltchim was affected in the first nine months of 2008 by crude oil price becoming more expensive, which resulted in prices rises for by-products, used as raw material, as well as for electricity. Thus, whilst revenues rose by 18%, losses of 27.68 million lei were incurred. Privatisation is set to be delayed until the market environment improves. Oltchim's total debts amount to around €500 million, of which the AVAS receivables include €140 million. An Oltchim support plan could be implemented, whilst AVAS is running an evaluation process of the Oltchim land for a capital increase.

#### **Poland's chemical consortium**

A Polish Chemical Consortium (PKCh) has been established by Ciech, ZA Tarnow (ZAT) and ZA Kedzierzyn (ZAK). All three companies are preparing to take over Anwil's 85% stake from PKN Orlen with negotiations likely to be commenced in January. Ciech will control a 50% stake in PKCh, while ZAT and ZAK will own 25% each. The acquisition of Anwil should initiate consolidation of the Polish chemical sector, but there fears that these plans drafted and published by the State Treasury in the fall could be affected by the global financial crisis.

<b>Polish Chemical Production (unit-kilo tons)</b>		
<b>Product</b>	<b>Jan-Nov 08</b>	<b>Jan Nov 07</b>
Caustic Soda	76.0	85.6
Soda Ash Light	302.0	331.8
Soda Ash Heavy	812.9	774.2
Ethylene	497.0	554.0
Propylene	333.8	345.6
Butadiene	54.3	54.0
Toluene	109.8	116.5
Phenol	41.1	45.0
Caprolactam	135.8	147.4
Polyethylene	324.0	358.6
Polystyrene	108.3	100.5
PVC	233.6	279.5
Polypropylene	229.1	265.8
Synthetic Rubber	117.9	114.8
Pesticides	31.4	31.3

PKCh will press PKN Orlen to revise downwards its asking price for Anwil. The consortium anticipated Orlen would value its 85% stake in Anwil at around zł 1.5 billion, but this was a pre-crisis evaluation. Ciech has stated, moreover, that PKCh would not be aiming to take over Anwil at any cost.

#### **Ciech**

Ciech expects to see total soda ash capacity rise to 2.2 million tpa by May 2009. This could mean soda ash sales accounting for around 45% of sales' revenues for the group, against 39% in 2008. Ciech has thus far not limited its production levels in response to the weak economic climate. However, there is a possibility that it could reduce TDI operating rates at the Zachem plant. Ciech has already postponed the project to construct a TDA plant at Zachem, at least until the end of 2009. This project is the company's flagship new investment project and is worth zł.450-500 million.

#### **ZCh Police**

Poland's largest producer of s, Zakłady Chemiczne Police has been forced to reduce production since October, and may be forced to stop production of nitrogen fertilisers in response to the gas supply situation. Aside the gas question, the company has been facing upcoming rises in energy bills and stagnant commodity prices. While exports account for 50% of sales, the company plans to focus on the domestic market more in future.

Zakłady Chemiczne Police achieved a zł 340.9 million net profit in the first three quarters of 2008, 2.2 fold higher than 2007 due to high fertiliser prices. The third quarter of 2008 saw spectacle growth of 52.6% income. Increased sale of chemicals by almost 700% is mainly result of big sale of ammonia and sulphuric acid. Sale of the titanium white stays on the same level as in the last year. Net profit reached almost zł 88 million in the third quarter. The profit was increased by 136.6% against 2007. The company continued high-tonnage sale of ammonia in the third quarter of 2008 at constantly rising world price for this product. However, market conditions changed dramatically in the fourth quarter leading to reduced output levels and uncertainty over prospects for 2009.

#### **Fertilisers**

When supplies get back to normal Gazprom is expected to reduce the price of natural gas exports to Bulgaria in 2009 by 35-40%, with similar reductions in other parts of South East Europe. More for market reasons than gas supply, the Romanian fertiliser producer Azomures at Targu Mures expects to temporarily halt production until mid-January. Reduced product storage capacity and the lack of orders has forced the company to take measures. Azomures hopes that the Romanian government will impose duties on low priced Ukrainian imports, and this would allow a restart of production. Maintenance, repair and upgrading works will be performed during the production standstill.

Due to uncertainty over gas supply, Petrom has started the shutdown of natural gas-fuelled units of its petrochemical plant Doljchim, triggering the technical unemployment of 600 employees by mid February. Aside a lack of orders, Petrom wants to reserve its gas supply for domestic consumers. The closure of the plant will ensure daily savings of 1.2 million cubic metres of gas. Doljchim at Craiova is the sole producer of fertilisers in the south-west of Romania and an important methanol producer (although production is intermittent). Interagro is to lay off about 5 500 workers, or about 90% of its employees, by closing down all of its six chemical plants, which produce fertilisers. The Interagro group also includes Viromet at Victoria, which is the main producer of methanol in Romania.

Bulgaria's leading fertiliser producers, Neochim and Agropolichim, halted production on 6 January after supplies of Russian natural gas to Bulgaria were suspended. Agropolichim, majority owned by U.S. Acid & Fertilizer, said it had shut down production after Bulgarian state gas monopoly Bulgargaz stopped gas deliveries to the plant, although some of its capacity had already been closed in November. Bulgaria, which relies almost entirely on



Russian gas for its needs, will be badly affected because, like Macedonia, it has no access to alternative pipeline routes.

In Lithuania, Achema decided in November to stop the second production plant for ammonia with only 15-20% of production capacity left functioning. Due to high prices for natural gas and falling prices for products in the international market, the company has also stopped its production of methanol and urea. Despite the cutbacks in production, Achema is not altering its investment strategy and plans investments of €20 million this year into co-generation power stations. Achemos has rejected a Spanish company offer to purchase the nitrogen fertiliser complex at Achema and the loading terminal Klasco in Klaipeda.

## RUSSIA

### Strategic chemical companies listed by Russian government for support

Company	Main Product
Akron	Fertilisers
Amtel	Tyres
Evrokhim	Fertilisers
Kuibyshevazot	Caprolactam
Nikokhim	Plastics
Nizhnekamskshina	Tyres
PhosAgro	Fertilisers
Sayanskkhimplast	PVC
SIBUR-Holding	Petrochemicals
Silvinit	Fertilisers
Togliattazot	Fertilisers
Ufaneftkhim	Aromatics
Uralkali	Fertilisers
Uralkhim	Fertilisers

### Outlook

Many companies have responded to the financial problems facing the global and Russian economy by cost cutting, including staff reductions, reduced energy consumption, and cut-backs in non-essential expenditures, etc. Investment strategies involving projects already under construction remain largely intact, although some of the more ambitious ideas may be shelved for the time being. Import duties for many products have been increased, with the aim of protecting the domestic producers.

The government has drawn up a list of companies in the chemical industry that qualify for direct support during the downturn. The general view is that the market will hit hardest in the first quarter and possibly second quarter. The recovery in Russia is based on not only how things develop globally, but the all-important oil price. Although petrochemical producers in Russia will benefit from lower feedstock costs, due to a lack of diversification the Russian economy is too heavily dependent on higher oil prices for economic growth.

The Kremlin has emphasised that despite the uncertainty of the global economy, it is determined to continue with its plans for developing oil refining and petrochemicals in the Russian Far East. Concept plans have been outlined to build 4 refineries and petrochemical plants, four gas-chemical plants, as well as aluminium

plants and a nuclear power plant. For petrochemicals, the idea of exporting products from the Russian Far East to regions in Asia has become an attractive prospect for monetising gas feedstocks.

Russia will make efforts to prevent prices for electricity, gas and railway services from growing in 2009 as fast as planned, in order to limit the effects of the credit crisis. Prices will be significantly corrected downward from the levels that had been planned. The government had said it would ask companies in these industries to reign in price rises, at least until the market improves. Thus, the planned price hikes approved last month by the Federal Tariff Service could be trimmed by at least 10-15%. Energy consumption fell 5.5% in November 2008 against November 2007.

### Chemical production

Last year could be divided into two main periods for Russian producers, before and after the global financial

and economic crisis. The first three quarters of 2008 saw a 6.9% increase in polymer consumption in Russia against 2007, but the fourth quarter will inevitably see lower growth or even falls. The reduction in solvency is the main cause of lower consumption in the fourth quarter.

### Russian Chemical Production (kilo tons)

Product	Sep 08	Oct 08	Nov 08
Ethylene	198.168	216.49	192.182
Benzene	98.929	105.522	72.431
Styrene	44.667	53.075	39.781
Phenol	18.411	16.341	13.295
Polyethylene	100.532	115.012	103.401
Polypropylene	39.693	45.57	46.591
PVC	37.517	50.81	50.123
PVC plasticizers	26.737	26.274	15.819
Polystyrene	22.894	26.97	25.815
Butanols	19.854	20.384	16.744
Methanol	260.651	289.552	320.777
SBR	96.821	80.427	70.923
Caustic Soda	101.4	109.1	96.2
Soda Ash	246.7	234.9	205.1
Ammonia	1058.67	1047.2	774.5

Full quarterly and annual data for all major Russian chemical products can be found on [www.cirec.net](http://www.cirec.net)

Demand is being affected not only by the lack of liquidity, but also the fact that many traders and consumers bought large stocks of polyethylene and polypropylene in the first half of the year in apprehension of higher prices and sustained demand. It may thus take a few months for those stockpiles to disappear, aside the solvency issue.

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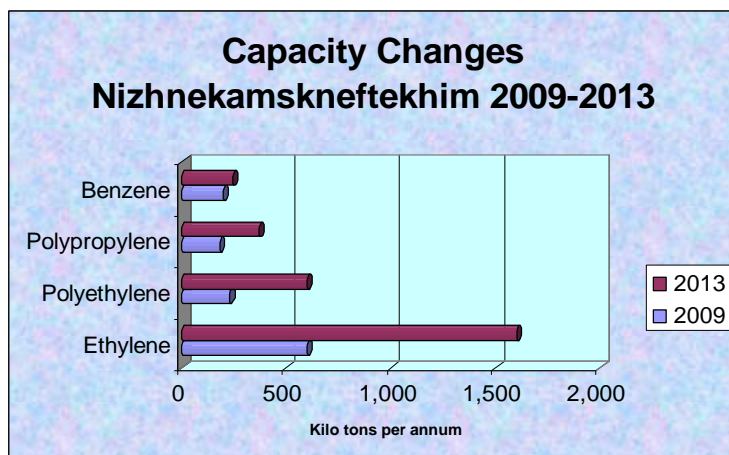
**Petrochemicals**

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**Nizhnekamskneftekhim evaluates 1 million tpa cracker**

The proposed concept of a 1 million cracker at Nizhnekamskneftekhim by 2013 seems likely to make progress this year, according to statements made by the company in late December. Total investments in the project are estimated in the range of 84 billion roubles. A technical and economic study will be undertaken by Kellogg Brown & Root (KBR) to identify the best technology for the project. Consideration of such a large cracker has been in place for some time, at least going back to the start of the current decade if not earlier.

The construction of a 1 million tpa cracker would add to the existing 600,000 tpa, and would make Nizhnekamskneftekhim by far the largest ethylene producer in Russia. Construction of the new cracker could start as soon as the second half of 2009.



In addition to the construction of a 1 million tpa cracker, Nizhnekamskneftekhim wants to expand its polyethylene capacity to 600,000 tpa, polypropylene to 370,000 tpa, and benzene to 243,000 tpa. Of the 1.6 million tpa of ethylene production, 1.2 million tpa would be consumed captively and the remaining 400,000 tpa sold on the pipeline system. Potential buyers could include Kazanorgsintez or Kaustik at Sterlitamak.

**Refinery projects**

Russia's refining industry, which has been neglected as the country's oil companies focused on crude production growth, is seeing more projects come under review. Last year, Russian refinery throughput rose by 9 million tons to 229 million tons, helping to absorb the industry's entire increase in crude production as exports remained flat.

Two of the main projects under assessment at present are located at opposite ends of the country, and both near to towns called Primorsk. Rosneft is expected to complete project design preparations for its Primorsk refinery in the Russian Far East by the end of 2009. Already the base technical calculations have been made for the project, which will result in the refinery having a capacity of 10 million tpa with a start-up of 2013. Omsknefteproject is the company designing the complex. Petrochemicals are being considered as part of the project, with a focus on the Far East export markets.

Plans continue to be evaluated for a 10 million tpa refinery complex to be constructed at Primorsk in the Vyborg area on the Finnish Gulf. The entire project could require in the range of \$6 billion. The refinery will produce kerosene, auto gasoline, isobutane, diesel fuel etc. The site is located in several kilometres to the west of Primorsk, not far from the old Finnish (now Russian) town of Vyborg. The Czech company Moravske naftove doly will construct the Primorsk refinery at a total cost of around \$2.4 billion.

**Sayanskkhimplast-gas pipeline**

The gas-processing platform for ethylene production at Sayanskkhimplast is to be included in the so-called gas programme for the Irkutsk region, assuming that the gas supply pipeline is completed to Sayansk. Plans are yet to be finalised, but the general intention is that gas will be delivered from the Chikansky deposit located in the Zhigalovsky area of south Kovytk, whilst for its transportation a gas pipeline will be constructed between Sayansk and Irkutsk. It is possible that route will pass through Angarsk in order to supply the Angarsk petrochemical company.

The administration of the Irkutsk region and Gazprom agreed at the end of 2008 on coordinating the scheme of delivery of gas from the Chikansky deposit, including the route of Zhigalovo–Sayansk–Irkutsk. However, this option is complicated in that construction of a pipeline was already started by the East-Siberian Gas Company (ESGC), from Kovytko towards the area of Sayansk. Thus, efforts are underway at present to see how the new pipeline could be synchronized with the already started pipeline. The gas supply programme is seen as critical for future energy supplies for the Irkutsk region, whilst for Sayanskkhimplast the gas pipeline is critical for building the ethylene plant to support the expansion of PVC capacity.

**Gaznergoset**

Gaznergoset, which is part of Gazprom, is expanding its petrochemical production and co-operating with Titan at Omsk and Bashneft. Since November 2008, the division has been processing butane at Surgut and SHFLU at Orenburg. In future, there are plans to process 20,000 tons of products per month, including butane technical, isobutane, gasoline gas stable, and normal butane. Gaznergoset belongs to Gazprom subsidiary Mezhhregiongaz.

**Gazprom-Neft, associated gas processing**

Gazprom-Neft has proposed to the Ministry of Energy and the Ministry of Environment to lower the required ceiling of 95% processing of associated gas by 2011 to 90%. The 95% ceiling target was set out in compliance with the Kyoto Protocol, and should producers be unable to meet these targets they will be faced by fines based on ecological grounds. Gazprom-Neft is hoping to present a case that processing 95% of the associated gas flares is an unrealistic target in the hope that it might be exempt from a fine. Other gas producers have not reported the same problems.

In 2009, Gazprom-Neft expects utilisation to reach levels of 60% and by 2012 a maximum of 90%. One of the main reasons put forward is the marketing the output. Other oil companies such as Rosneft, LUKoil, Surgutneftegaz and TNK-BP have all stated they will comply with the 95% processing of flared gas by 2012. Surgutneftegaz is even considering a level of 98%, even if it has many deposits far removed from commodity markets. Thus, the pressure for Gazprom-Neft to comply with 95% processing could be extreme from the government and it seems unlikely that exemptions on ecological fines will be permitted.

**SIBUR seeks changes in export duties for LPGs**

SIBUR has sent a request to the government to ask for the cancellation of export duties for dry hydrocarbon gas. Falling demand for chemical production will affect the utilisation rate for associated gas and gas condensate processing, which it is argued by SIBUR could affect other sectors in the oil & gas sector such as extraction. If demand continues to fall in the new year, SIBUR may need to shut certain petrochemical plants which would reduce the need for associated gas condensate processing. From an environmental point of view, this would contradict the government's policy on reducing gas flares into the environment in West Siberia. Thus, in order to maintain operating rates SIBUR wants the government to remove the export duty in order that dry gas can be exported. The company supplied 2.38 million tons of dry gas in 2007 to the domestic market, and also exported 620,000 tons. In total, Russia produces around 8.8 million tpa of dry gases of which 3.7 million tons are exported. Other producers of dry gases in Russia have not faced serious problems with sales, but would clearly benefit from a removal of the export duty.

The fall in world oil prices has affected the price for dry gas, thus with the export duty it makes exports unviable. SIBUR has asked for a cancellation of the duty until 1 July, or until the end of 2009. The company is also asking for lower tariffs on rail transportation. At the same time, SIBUR suggests an increase between 0.5 to 4 times the import customs duties on chemical products produced in Russia (MEG, polyethylene, polypropylene, PET and PTA, thermoelastomers, etc) to increase internal sales.

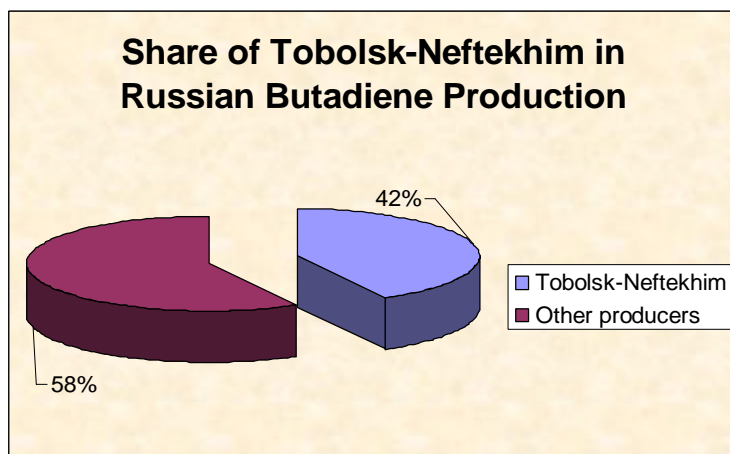
**SIBUR expected to see lower production volumes in 2009**

SIBUR-Holding could reduce total production by 30-40% in 2009 due to the weak economic conditions. The investment strategy will be assessed, particularly for projects in the concept stage, such as polymer capacities at Orenburg. Ongoing projects such as styrene and polystyrene plants at Perm, the Tobolsk polypropylene project and expanding the Yuzhno-Balyk gas processing plant will continue unaffected. In December, SIBUR encountered losses in excess of 100 million roubles, whilst turnover dropped two fold. Turnover was influenced not only by lower volumes, but also lower product prices. Most of the production divisions have been affected to some degree, as outlined below.

The Russian Ministry of Industry & Trade has recommended support for two of SIBUR's main petrochemical projects at Tobolsk and Kstovo. The government investment fund could finance up to 25% of the total cost of either project, costing around \$1.3 billion and €650 million respectively. SIBUR did not approach the Ministry, but the projects are considered as key developments in the chemical industry expansion up to 2015.

#### **Tobolsk-Neftekhim-short term measures**

Tobolsk-Neftekhim closed one of its two butadiene units in December, which is expected to be down until the end of winter due to a lack of business. From the start of 2009, Tobolsk-Neftekhim has reduced staff numbers by 102, whilst it will be starting a four-day week from 27 January. The company has introduced a number of cost-cutting measures, and efforts are being applied to restructure some of the processes and improve product quality. MTBE is being viewed as a product which could be expanded due to increased domestic demand.



In the short term, the decline of demand for tyres in Russia has affected the production of synthetic rubber at Voronezh, Togliatti, and Novokuibyshevsk. This has disrupted the production chain with Tobolsk-Neftekhim, reducing output of butadiene. The SIBUR subsidiary has taken measures to cut expenses and introduced a four day week for a period.

Tobolsk is a key hub for Russian petrochemicals. SIBUR plans to increase capacity at the gas fractionating unit at Tobolsk-Neftekhim to 5.8 million cubic metres per annum by 2012, against the

current level of 3 million tpa.

#### **Novokuibyshevsk Petrochemical Company-isoprene**

Novokuibyshevsk Petrochemical Company has reduced personnel by around a thousand due to stoppage of the isoprene monomer plant. Falls in demand have led to the closure, whilst other raw material units have been stopped. The Novokuibyshevsk petrochemical company produces dry gases, butane, pentane, hexane, isoprene and butylated phenols.

Rosneft has been in discussions with SIBUR over re-starting the isoprene plant at Novokuibyshevsk. Rosneft owns the Novokuibyshevsk refinery which supplies the petrochemical complex with raw materials, and the closure of production affects refinery output.

#### **SIBUR-Khimprom-energy saving cuts**

SIBUR Khimprom at Perm aims to save around 50 million roubles in 2009 as the result of energy saving measures, including lower consumption of natural gas and electricity. The company also plans to reduce expenses on electricity by 1.6 billion roubles through the use of its own power station that was installed in 2008. In addition, SIBUR-Khimprom plans to use its own waste as reagents in the production of butanols. This will provide savings of around 3 million roubles. Other efforts are being introduced that will minimise the losses expected at least for the first half of 2009. In November, SIBUR-Khimprom announced reductions in butanol and 2-EH production by 47% and 3-fold respectively.

#### **SIBUR-Neftekhim**

SIBUR-Neftekhim has started to introduce a number of measures in response to the economic challenges. The aim of the measures is to provide stable operating rates and to minimise losses from the reduction in product prices. Reductions in energy consumption have been under review, whilst charitable payments are temporarily suspended and additional training programmes for personnel have been reduced.

Regarding capital investments, the company has elected to continue its main projects, but is making some non-essential cutbacks. The main project being undertaken by SIBUR-Neftekhim involves the modernisation of



expansion of the EP-300 complex, from initially 260,000 tpa to 350,000 tpa and then subsequently to 430,000 tpa. The project is being undertaken in parallel with the RusVinyl PVC project at Kstovo. This project will require around 150,000 tpa of ethylene and 350,000 tpa of salt.

SIBUR-Neftekhim has started the construction of a new boiler-energy station at the EO/MEG unit at Dzerzhinsk, with the involvement of the Danish company Aalborg. The new station will become operative this year during the annual shutdown for the EO/MEG plants. The new boiler will reduce costs for energy, and adds to the existing boiler for SIBUR-Neftekhim at Kstovo.

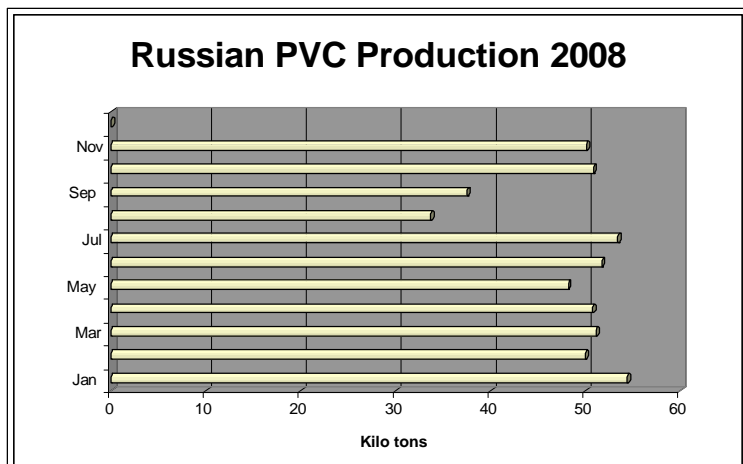
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### Bulk polymers

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#### Russian PVC consumption

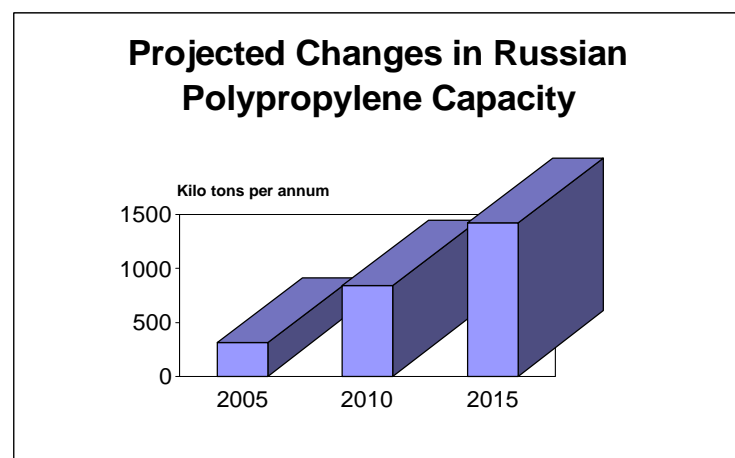
PVC prices in Russia started to fall in September and at least for the first quarter of 2009 are expected to remain under pressure. Liquidity amongst consumers is low and no growth is expected in the first few months of 2009. This is partly due to the fact that the warehouses belonging to the traders contain high stock levels of PVC and this will take some time to offload to the market. Nonetheless, domestic PVC producers intend to continue normal production levels in the hope that they can compete successfully against imports.



PVC consumption rose 26% in the period Q1-Q3 2008 against 2007. Increases in consumption have been fuelled largely by imported volumes of PVC, which saw a 79% increase against 2007. The strong demand and shortage of domestic production in 2008 led traders to increase imported deliveries, with 53% of all imports coming from Asia. Imports reached such a point in the middle of 2008 that suspension grade PVC prices started to come under pressure, despite robust demand. This was measured against very high feedstock costs, particularly ethylene, but changes started to take place at the end of the third quarter with prices falling 2-3%. By December, prices had fallen by 15.25% compared to September, partly due to a lack of demand and partly due to lower costs. PVC pipe producers have reduced output, whilst window profile manufacturers have also been affected.

The fall in valuation of the rouble over the past few months has made it more difficult for imports to succeed in the Russian market. Traders have stopped buying imports and many are operating on losses, as they attempt to sell product bought at higher prices. Such is the build up of supply that Russian producers are seeking protection against imports.

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#### Omsk polypropylene project

The Omsk polypropylene plant is expected to come on stream at the start of 2010, according to joint announcements made by the Omsk administration, Titan (which will manage and own the plant) and Tecnimont. The government of the Omsk region acts as the political guarantor of the project, which was agreed initially in April 2005. The capacity of the plant will be 180,000

tpa, with a project value of 1.1 billion roubles. To date, equipment valued at 400 million roubles has been delivered to the Omsk Kaucuk site where the polypropylene plant will be located. The construction schedule is reported to be moving ahead on time, including warehouses for finished products, etc.

Tecnimont has constructed other polypropylene plants in Russia, including Ufa and Moscow. It claims that the project will be completed on time in early 2010. All the necessary equipment for the polypropylene plant will be in place by September 2009, allowing several months for final preparations and construction for the start-up. According to the business project plan of the polypropylene plant at Omsk, more than half of production will be processed locally with about 40% sent for export.

#### **Tobolsk-Polymer, polypropylene project continues**

SIBUR-Holding has no plans to halt the 500,000 tpa polypropylene project for Tobolsk-Polymer, although possibly the completion date may be revised. The project envisaged a total outlay of 25 billion roubles, of which 4 billion was invested prior to the end of 2008. The Russian Ministry of Industry & Trade has recommended support for two of SIBUR's main petrochemical projects at Tobolsk and Kstovo. The projects are considered as key developments in the chemical industry expansion up to 2015. Tobolsk was selected for the polypropylene project due to its proximity to raw materials.

#### **Nizhnekamskneftekhim to start HDPE plant in January**

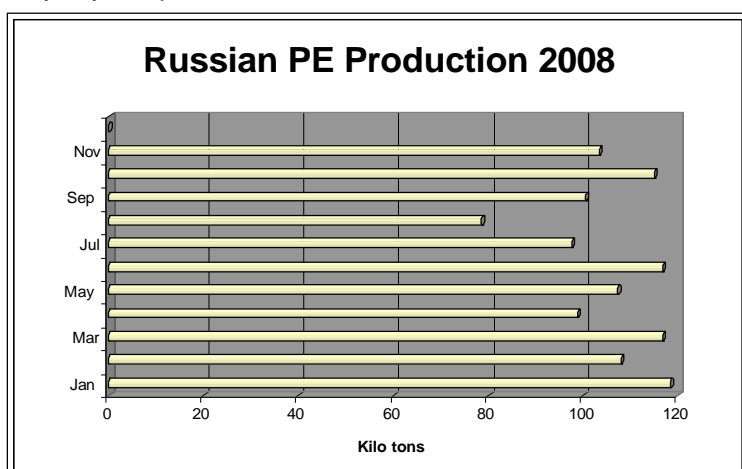
Nizhnekamskneftekhim plans to start its new HDPE plant in January, after setting up the ethylene flow at the end of December. The 230,000 tpa plant has cost around 8 billion roubles.

#### **Salavatnefteorgsintez-polyethylene**

Salavatnefteorgsintez aims to start its new polyethylene plant this year, although the timing of the start-up may depend on market conditions. As Nizhnekamskneftekhim is also in the final stages of start-up of its own 230,000 tpa plant for HDPE the market is likely to become over-supplied. Production levels remained constant in October and November despite the slowdown in demand. Gazprom Processing has taken a 24.9% stake in Salavatnefteorgsintez from other Gazprom subsidiaries, further integrating the petrochemical company into the gas holding.

#### **Russian polyethylene market**

Polyethylene production increased 5.4% in the first eleven months of 2008 against 2007, although a 3.6% drop



was noted in October and November. The producers which recorded falls in the first eleven months of 2008, included Salavatnefteorgsintez, Ufaorgsintez and Angarsk Polymer Plant. Salavatnefteorgsintez reduced output by 2.4% to 35,755 tons, Ufaorgsintez reduced by 7.2% to 71,457 tons, and the Angarsk Polymer Plant, which reduced by 13% to 53,350 tons.

Stavrolen increased polyethylene production by 1.4% to 253,527; total production at Budyennovsk in 2007 was 301,900 tons, or 12.7% more than 2006.

Kazanorgsintez recorded a 9.2% increase in production in January-October 2008 to 440,135 tons, NeftekhimSevilen by 15.6 %, to 22,289 tons, and Tomskneftekhim by 15%, to 190,779 tons. Production fell by 3.6% in October 2008 against October 2007 to 114,682 tons.

#### **Tomskneftekhim-economic response**

Tomskneftekhim is considering a number of measures to reduce costs until the market resumes normality. Maintenance costs are likely to be reduced in 2009, whilst non-essential payments will be suspended and a decision has been taken to minimise working hours. Tomskneftekhim has already reduced its production of polyethylene to 60% of capacity and also for liquid products of pyrolysis, but has retained the same levels of polypropylene. The cutbacks have made most of the production unprofitable, although with SIBUR's backing the company is well placed to service the current economic situation.

In late 2008, SIBUR concluded a contract for 6,000 tons per month of polypropylene to one of the largest Russian plastics processors. The polypropylene grade 003016? is used in BOPP manufacture, and will ensure full capacity of the Tomsk plant for the time being.

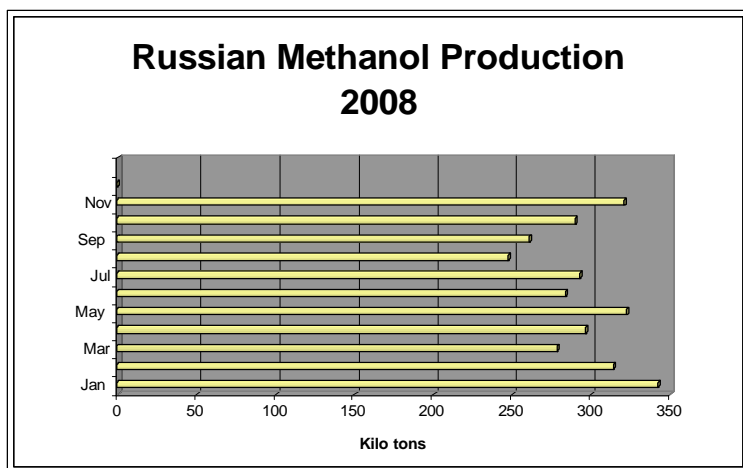
### Kazanorgsintez, credit lines established

The board of directors of Kazanorgsintez made the decision to take two credit lines on attraction of 2 credits at Sberbank for a total sum of 925 million roubles. These funds will help to keep the company afloat after incurring huge debts from the investment programme between 2005 and 2008. There is concern over the ability of Kazanorgsintez to run its newly expanded ethylene capacity at 100% and to achieve the intended vertical integration is being hampered by its tolling agreement with SIBUR. Under the agreement, KOS is required to process 50% of the ethane it receives from the Orenburg helium plant for SIBUR. The Orenburg plant accounts for around 80% of ethane supplies to Kazan (including tolling volumes), which makes the company vulnerable to raw material disruptions.

### Russian polystyrene prices

Polystyrene prices in Russia fell sharply in late 2008, after strong rises were recorded earlier in the year. Prices had risen steadily from 2006 to 2008, rising 29% on average, until market conditions changed in the fourth quarter. Price rises have been influenced by oil prices, which started to soften after the summer. The combination of low liquidity, reducing demand, and lower oil prices, have helped to drag down price levels for polystyrene to the point that they were 22% lower in December than June.

## Methanol



### Sibmetakhim modernises methanol facilities

SIBUR-Holding withdrew from the methanol market on 18 December 2008 by selling its 33.46% stake in the JV Sibmetakhim. The group is attempting to streamline its activities in order to focus more on feedstocks and petrochemicals. The stake in Sibmetakhim has been sold to Metafrax, which is also part of the Gazprom structure. SIBUR and OAO Vostokgazprom, a subsidiary of Gazprom, set up Sibmetakhim in September 2006. The creation of Sibmetakhim was originally aimed at consolidating all Gazprom's methanol assets.

Metafrax, based at Gubakha, Perm region, Northern Russia, is the country's leading methanol producer and exporter. Last year, Metafrax raised its methanol output up to 1 million tpa. In the first half of 2008, it produced 517,000 tons of methanol which was 3% up year-on-year.

The JV Sibmetakhim includes has a methanol capacity of 750,000 tpa, 40,000 tpa of formaldehyde, and 35,000 tpa of urea-formaldehyde resins. Sibmetakhim has recently completed the modernisation of the compressor at Tomsk. The synthesis-gas compressor is the major technological unit of the plant providing compression of synthesis gas.

### Novocherkassk Synthetic Products Plant-methanol project delay

Novocherkassk Synthetic Products Plant has delayed the construction of the new methanol plant due to a lack of finance. Thus, it looks likely to be 2010 before the project to build a new 450,000 tpa methanol and 150,000 tpa acetic acid plant starts to move forward. The company for meantime has incurred debts for gas supplies caused largely by the fall in methanol prices.

### Shchekinoazot

Local environmental support has been granted to Shchekinoazot for investment projects into cyclohexanone, methanol and phenol-formaldehyde resins which help the company continue to operate profitably. The cyclohexanone project is crucial to the caprolactam division, whilst the phenol-formaldehyde resin investment is being co-ordinated as a JV with Hexion. The cyclohexanone plant involves the transfer of equipment from Strazske in Slovakia, which was previously used by Chemko.

### Astrakhan urea project

At the end of 2008, a new ammonia and urea complex was agreed to be constructed at Astrakhan. The complex will be constructed under a JV between the Astrakhan administration and the Kazakh company Euroazkhim. Production will start in 2013, including capacities of 1.7 million tpa of urea and total investments of \$1.5 billion. Feedstocks will be supplied by LUKoil deposits from the Caspian sea.

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## Plastics

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### Biaksplen-Novatek Polymer

Biaksplen has expanded its ownership of BOPP plants in Russia by acquiring Novatek-Polymer from Novatek, which had decided to sell the division. Novatek-Polymer is the largest Russian producer of anticorrosive materials for underground pipelines in the oil and gas sector, in addition to producing BOPP where production started in 2005. In December 2007, Biaksplen bought GRINN Plastik at Kursk and in September 2008 Rosevoplast near Moscow, with both companies producing BOPP with respective capacities of 15,000 and 20,000 tpa. After purchasing Novatek-Polymer at Novokuibyshevsk, the capacity for Biaksplen was increased by another 15,000 tpa. Novatek is glad to be leaving a non-core market, whilst Biaksplen increases its influence and now owns four of the five BOPP producers in Russia.

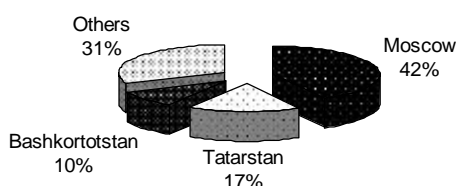
### Tyumen Plastics Plant

Tyumen Plastics Plant plans to commission its new plastics plant by the end of the summer this year, after delaying start-up. The economic conditions made start-up in later 2008 unviable so the company decided to delay the process for several months. This will mean that the final construction stages will be undertaken with less pressure. The plant will produce 50,000 tpa of phenol-formaldehyde and urea-formaldehyde resins, against current volumes of 21,000 tpa.

### Kama Fields Industrial Park, Nizhnekamsk

The Industrial Park Kama Fields in the Nizhnekamsk region is a key development for Nizhnekamskneftekhim and has been included in the list of projects receiving state support through the Investment Fund of the Russian Federation. Aside from creating new workplaces, it will provide additional outlets for processing of polymers produced by Nizhnekamskneftekhim, including: polystyrene, polypropylene, and polyethylene. The cost of building the park is estimated at 1.7 billion roubles, a third of which will be financed from the Investment Fund. The Kama Fields project was first thought of in the 1980s, but was put on hold after the collapse of the USSR.

### Distribution of Plastics Consumption in Russia



### Plastics distribution in Russia

Plastics markets in Russia are largely dominated by sales in Moscow, Tatarstan and Bashkortostan, as illustrated in the graphic opposite. The products listed in the analysis include HDPE and LDPE, PET, PVC, polypropylene and polystyrene. Moscow possesses the biggest concentration of processing plants, in addition to the financial levers.

Around 180 companies are involved in processing in Russia, of which around a third are active in imported polymers.

Sometimes imports are more cost-effective than domestically produced product such as from Tomsk. Due to the current financial conditions, not all companies selling polymers can continue to operate in the first part of this year. Whilst there may be some contraction in the marketplace, the regional shares in processing are expected to remain the same.

### Other plastics news

On 24 November, Safplast together with Kazanorgsintez produced its first shipment of polycarbonate. Initial tests proved that the polycarbonate did not meet international standards. In November, the polycarbonate plant at Kazan reached its full 65,000 tpa operating capacity, based on Asahi Kasei technology.



In November 2008, a new BOPET plant was started at Zhukov on border of the Moscow and Kaluga areas. The plant is owned by a subsidiary of Retal. The modern and high-speed equipment was supplied by the French company DMT, and the capacity of the plant is 18,000 tpa. The plant can produce BOPET films with a thickness from 6 to 125 microns.

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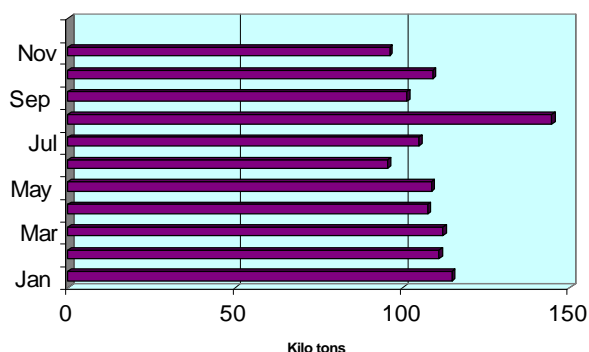
**Chlorine chemicals**

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**Chlorine market**

The chlorine market seems to have been only marginally affected so far by the weakened economy, with no visible decline in activity. However, producers are unclear if they are at the start of the crisis, in the middle or near the end; such are the conflicting information signals being received. Demand growth is unlikely to drop below 3-4% in 2009, but will not be as robust as has been in recent years. Caustic soda production was

exactly the same for the first ten months of 2008 at 1.065 million tons. A total of 615,000 tons of caustic was sold to the domestic market for the first ten months of 2008. Sayanskkhimplast increased deliveries by 9%, to 130,000 tons, whilst Kaustik at Sterlitamak reduced deliveries by 4%, to 100,000 tons. Imports into Russia totalled 16,000 tons, which showed a 20% increase over 2007.

**Russian Caustic Soda Production****Sayanskkhimplast & Kaustik**

Sayanskkhimplast has stated that it does intend to reduce output volumes in 2009,

despite the economic downturn and also reports that it had lowered its production already. Thus, the company expects to produce around 250,000 tpa of PVC this year. Investment projects are to continue for the construction of a second line for chlorine and caustic soda production based on membrane technology. Sayanskkhimplast has agreed salary increases of 14% from 1 January 2009.

Kaustik at Sterlitamak completed a series of ecological projects at the end of 2008, investing a total of 42.360 million roubles. The project provides a solution of recycling chloroorganic waste from the production of epichlorohydrin and perchloroethylene. However, the company still has the problem of recycling of weak hydrochloric acid.

**Soda ash exports**

Soda ash exports totalled 2.43 million tons in the period January-October 2008, 0.2 more than in 2007. All producers, with the exception of Metakhim, increased production in 2008. A total of 1.69 million tons was sold on the domestic market, a 4.7% rise over 2007. Imports were down by 13% to 272,000 tons in the period January-October 2008, which counterbalanced the increase in domestic product sales. Exports fell 21% in 2008 to 450,000 tons with the only producer to increase volumes Berezniki Soda.

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**Synthetic rubber**

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**Nizhnekamskneftekhim-reduced output**

Due to the drop in demand for synthetic rubber, neonols and MEG, Nizhnekamskneftekhim was forced to reduce production in December. For the first three quarters of 2008, average monthly output of synthetic rubber was 45,000 tons, but this dropped to 18,000 tons in December and this is the worst product area for the company. As ethylene consumption was lower, both at Nizhnekamsk and Kazan, Nizhnekamskneftekhim was forced to start producing alpha-olefins to make use of the ethylene output.

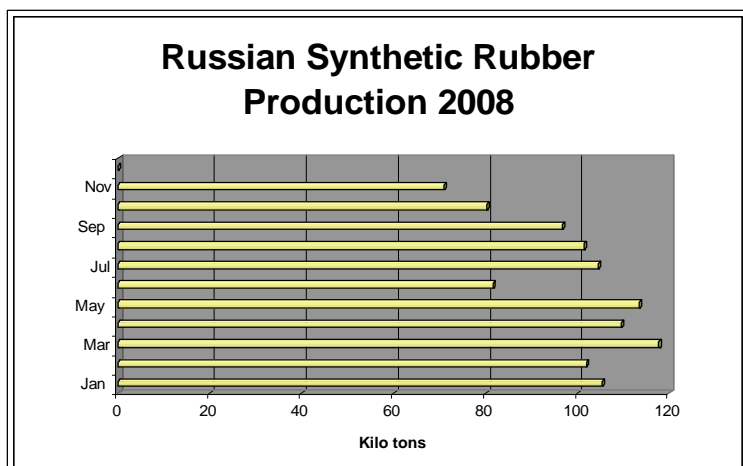
The company has adopted a number of measures to reduce costs and has requested from the Tatar Parliament a cancellation of electricity subsidies. This measure alone will reduce costs by 3 billion roubles this year. Furthermore, to the federal government in Moscow, Nizhnekamskneftekhim has requested help on prices for railway transport, electricity and natural gas.

### Amtel restores production

Production at the Amtel-Povolzhye tyre plant at Kirov resumed 8 December. Operations at the Amtel-Vredestein subsidiary facility had been suspended due to a lack of working capital following the failure of merger talks with SIBUR-Russian Tyres. This pause in production was reported to have been scheduled only for the period between 11-20 October, however the resumption of work was repeatedly postponed. The revival of activity has been facilitated without the support of SIBUR. Amtel-Poolside was intended to buy raw materials from Togliattikauchuk, but butyl rubber production has already been stopped and other rubber products have been reduced by 30-40% or from 23-25,000 tons per month to 16,000 tons.

### Togliattikauchuk

Togliattikauchuk is introducing a number of measures on cost-reduction in order to overcome the drop in demand for synthetic rubber. The company's management aims to reduce the number of personnel, whilst cutting costs in non-essential areas. The sharp reduction in synthetic rubber prices in the latter part of the year has affected the company's outlook for 2009. At the end of last year, SIBUR approved a project financial support programme for Togliattikauchuk worth 472 million roubles for 2009, which is about 30% less than expected. Modernisation of the complex remains a key priority for SIBUR despite the negative financial conditions.



One of the main projects is the conversion of the isoprene unit to a one stage process from its current two-stage process, thus following Nizhnekamskneftekhim which completed the change several years ago. The conversion process at Togliattikauchuk started in 2008 and will increase the capacity of isoprene and reduce the costs in the production of isoprene rubber. Also the support programme entails the replacement

of equipment for the butyl rubber plant, with 31.5 billion roubles has been allocated for this task. As part of the financial support programme for projects, Togliattikauchuk will under around 700 tasks in 2009, including ecological, technical safety and product quality.

### Other products

### Akrilat-Dzerzhinsk

Akrilat at Dzerzhinsk recorded losses of 114.46 million roubles in the period January-September 2008, which was 38.2% higher than in 2007. Turnover increased in the third quarter to 547 million roubles, but raw material costs have made it not possible to make a profit. Propylene and butanol costs accounted for a larger share of total costs in 2008 over 2007, although reductions started to be seen in the third quarter. Butanol prices fell in Q3 2008 to levels not seen since early 2007.

Akrilat's Main Raw Material Suppliers				
Supplier	2007	Q1 08	Q2 08	Q3 08
Salavatnefteorgsintez	26%	-	0	0
SIBUR-Holding"	44%	54%	34 %	52 %
ATEK, Ufa	21%	45%	64 %	46%

The propylene price rose in 2007, and 2008 until the third quarter. Raw material price fluctuations have significant effects on the company's financial situation. Imported raw materials are no more than 6%. The

main suppliers for Akrilat are shown above, consisting of SIBUR-Holding and the Ufa based trading company ATEK, which supplies largely from Salavat. In other raw material areas, Akrilat benefited from lower methanol and ethanol prices in 2007 but ethanol prices have since risen.

Akrilat has been examining a number of measures in order to reduce costs, including possible recycling of production wastes. Experimentation is being carried out on extracting butanols from the wastes of butyl acrylate production, which could lead to produce 300-400 tons per year of butanols. The major raw material purchased by Akrilat is propylene and storage facilities are being established in order to provide greater flexibility in sourcing and continuity in supply.

Regarding its own production, Aktilat is considering the production of dispersions for the paint industry, including anticorrosive coverings. Other possibilities include producing polymers based on acrylic acid for use in the detergent industry. Developments in these product areas would require a different type of marketing. It remains a priority of the company to add value to current acrylic ester production, as it is not able to make profits from buying raw materials on the open market and selling products as commodities.

#### **Nefis Cosmetics-stearin**

Nefis Cosmetics at Kazan has revamped its stearin unit, aimed at reducing purchases on the open market. The new technology facilities stearin from solvent oil, and reduces expenses on this raw material by around 40%. New catalysts developed at Novosibirsk and Omsk are to be applied. Nefis Cosmetics is undertaking the project through Tatneftekhiminvest-Holding at a cost of €100 million. The main buyers of stearin include producers of resin-technical products, synthetic rubber, etc. Around 70% of the Russian market for stearin is controlled by Nefis Cosmetics.

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### **Ukraine**

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#### **Ukrainian gas**

Gazprom said that it was raising the price of gas for Ukraine to \$450 per thousand cubic metres and urged Kiev to resume negotiations in a row which forced gas cuts to Europe. This price is calculated as the gas price in West European countries bordering Ukraine minus transit cost. Russia has said it was prepared to charge Ukraine \$250 per 1,000 cubic metres this year before talks collapsed, after which it raised the price to \$418. Kiev has said its highest offer was \$235 after paying \$179.5 in 2008, and it wanted Russia to pay higher transit fees. Ukraine is facing a gas supply crisis if it cannot reach agreement with Russia over the price for 2009.

#### **Cutbacks in Ukrainian ammonia production**

Ammonia production in Ukraine has been reduced vastly in the final two months of the year. Ammonia production was reduced substantially in the last two months of 2008. Ukraine exported 4.322 million tons of ammonia in the period January-October, 1.2% more than in 2007. Production fell at Cherkassy and Odessa, but rose at all other plants. Azot has stopped its units for ammonia, acetylene, VAM and urea. In December adipic and acetic acid plants ran at lower utilisation levels. Azot exports around 75% of its production and has cut back production in areas where profits are not possible in the current market conditions. Azot has revamped its acetylene unit helping to reduce gas consumption in production costs. Gas accounts for 85-90% of the total production costs for acetylene.

#### **Ukrainian PVC Imports (kilo tons)**

	Jan-Sep 08	Jan-Sep 07
Hungary	16.9	12.2
Poland	16.9	4.6
Taiwan	11.8	6.9
China	11.4	9.6
Germany	11.2	9.9
S Korea	11.1	12.6
USA	9.5	0.0
Romania	9.3	4.3
Slovakia	2.9	2.2
Norway	2.7	2.7
Others	13.8	7.5
Total	117.5	72.5

#### **Ukrainian PVC market**

After a very robust first three quarters of 2008, Ukrainian PVC consumers have been affected by the devaluation of the Ukrainian hryvnia, and deliveries have since dropped. This comes after a very good first three quarters of 2008, when PVC imports increased from 72,500 tons in 2007 to 117,500 tons.

Despite PVC prices falling sharply, traders are still trying offload product bought in later summer and early autumn and trying to avoid losses. Falls in demand were noted in October, November and December, and the trend is expected to continue for the short term. On the demand side, reductions have been noted for PVC films, profiles and pipes. In addition, the production of PVC

compounds has been reduced

#### **Karpatneftekhim faces further short term problems**

Karpatneftekhim intends to cut by over a thousand jobs due to the stoppages in production which started in the first half of 2008. LUKoil has decided to continue construction on the new chlorine and caustic plants at Kalush, which are to come onstream either in 2010 or 2011. In order to become independent in Ukraine, Karpatneftekhim is constructing its own power source which will provide sufficient steam for the petrochemical complex. A new company LUKoil Energy and Gaz Kalush has been created to manage the project.

Central Asia/Transcaucasus

**Uzbekistan**

Uzbekistan produced 673,700 tons of sulphuric acid in the period January-September 2008, 7.1% down on 2007. Fibres were down 22.9% to 9,055 tons, ammonia was up 5.2% to 948,200 tons and soda ash was 43.7% up to 51,000 tons.

The Uzbek chemical industry is currently in the middle of an investment strategy for the period 2007-2011, including 15 projects of which five have already been completed. The Uzbek chemical industry holding UzKimyoSanoat has stated that the investment strategy will lead to reductions in energy consumption and increases in export potential. Production increases will be made for nitrogen fertilisers of 12% and phosphate fertilisers 25%. The Chirchik ammonia plant is to be expanded to 420,000 tpa, whilst the cost of production will fall at the same time. The Ferganaazot ammonia plant will be increased to 400,000 tpa. Navoiyazot is engaged in a number of projects, including the production of potash fertilisers.

**UzKorGasChemical**

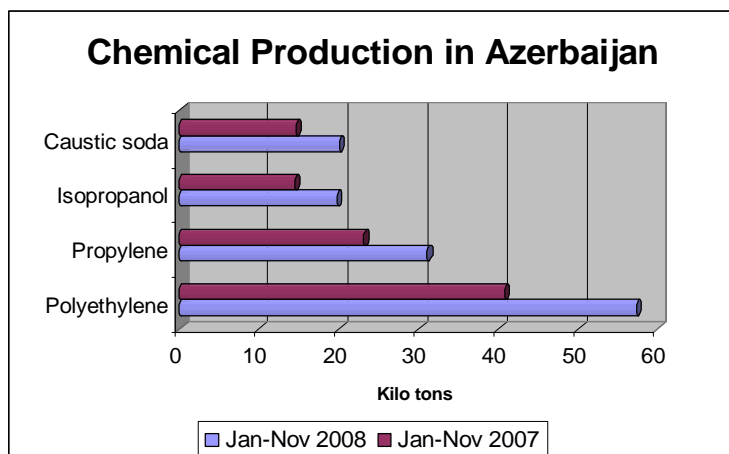
Uzbekistan is pressing ahead with a new polyethylene project at Surgil, as part of an Uzbek-Korean jv between Uzbekneftegaz and KOGAS. The resultant company UzKorGasChemical has been created which will process annually 4 billion cubic metres of natural gas, 362,000 tpa of polyethylene, 83,000 tpa of polypropylene, and 3.7 billion cubic metres of commodity gas. The project will draw on deposits from the Uzbek part of Aral sea, involving a consortium which includes LUKoil, CNPC, etc.

The Korean-Uzbek jv UzKorGasChemical was created in February 2008 between KOGAS and Uzbekneftegaz and based on the Surgil deposits of Uzbekistan. KOGAS has 17.5%, Lotte Daesan Petrochemical Corp (17.5%), LG International, SK Gaz and STX Energy 5%. The project plans include 362,000 tpa of polyethylene and 83,000 tpa of polypropylene.

**Market trends, Central Asia**

Nairit in Armenia has closed its chloroprene rubber plant until 1 February, following the other main chemical producer Vanadzor-Khimprom. Nairit was forced to stop in December due to low demand and weak pricing.

PVC consumption in Azerbaijan fell in the period January-October 2008 by 8% against the same period in 2007, down to 13,810 tons. In Kazakhstan, a 17% fall in PVC consumption was recorded in January-October 2008 to 10,700 tons. The main supplier of PVC to Kazakhstan is China, accounting for 34% of the market in 2008.



Chemical production in Azerbaijan rose by 37.4% in the period January-November 2008 against 2007. Caustic increased 36.6% to 20,100 tons; propylene by 34.1% to 31,100 tons; polyethylene by 40.4% to 57,300 tons, and isopropanol by 35.3% to 19,800 tons.

Kazkhimvolokhno (formerly Kustanaihimvolokno) at Kustanay has stopped the production of threads, and is not expected to restart until 2010. The plant is to buy new equipment worth \$50 million, financed by the holding group Kazneftekhim. Due to the weak state of the fertiliser market, Kazakh producers have been faced

by extreme difficulties. The state has provided temporary support for deliveries to the internal market and also has agreed to undertake energy efficiency investment projects. However, in the face of competition from China, the prospect of job losses has been raised together with lower operating rates.

**Polystyrene consumption in Kazakhstan**

Polystyrene consumption in Kazakhstan fell 20% in the first three quarters of 2008 to 4,500 tons. The market is supplied from the Aktau plant and imports. Sat Operating at Aktau has operated on a tolling arrangement since 2006 and does not exceed 300 tons per month. In 2008, the plant produced 1,800 tons



in the first three quarters, which was 15% down on 2007. Exports fell 53% to 775 tons, whilst sales to the domestic market doubled. The main problem for Sat Operating is securing raw materials. Russian styrene prices have risen which are difficult to pass on to end-users, but SAT Operating still plans to increase production this year. Russian producers set polystyrene prices at higher rates to deter Sat Operating from producing polystyrene.

**Relevant Currencies**

(Czech crown. Kc. \$1 = 18.799. €1 = 26.224): (Hungarian Forint. Ft. \$1 = 189.42. €1 = 264.13): (Polish zloty. zl. \$2.958. €1 = 4.2128): (Romanian New Lei. \$1 = 2.8095. €1 = 3.9159). (Ukrainian hryvnia. \$1 = 7.9050. €1 = 11.251): (Rus rouble. \$1 = 28.399. €1 = 39.424)

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