Chemical Information Resources for East Europe and CIS

CIREC MONTHLY NEWS

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

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- Global credit and liquidity problems could throw financing into uncertainty for the Novy Urengoy project, although Gazprom remains hopeful it will secure the necessary $500 million agreed with the banks
- The rate of growth in polypropylene consumption in Russia has tended to slow this year in comparison with 2007 and 2006, but even so has still achieved an increase of 11% in 2008
- Benzene produced in Russia from either crackers or refineries in 2008 has been less available and consumption of oil based benzene has declined as a result
- Production of orthoxylene and paraxylene in Russia fell 9% in the first seven months of 2008, down to a total of 296,400 tons
- The new owners of the Novocherkassk Plant of Synthetic Products, Moscow based Agro-Invest, plans to create two new units and modernise two existing units at a total cost of 14.8 billion roubles
- Togliattikaucuk has reached agreement to with Pirelli and Rostechnologi for the supply of rubber to the new tyre plant in the Samara region
- Lower oil based benzene availability in Ukraine this year has culminated in the growth in demand for coal based benzene
- ING has been appointed financial adviser to Uz-Kor Gas Chemical, a project company set up to develop, finance, build and operate a petrochemical complex in southern Uzbekistan

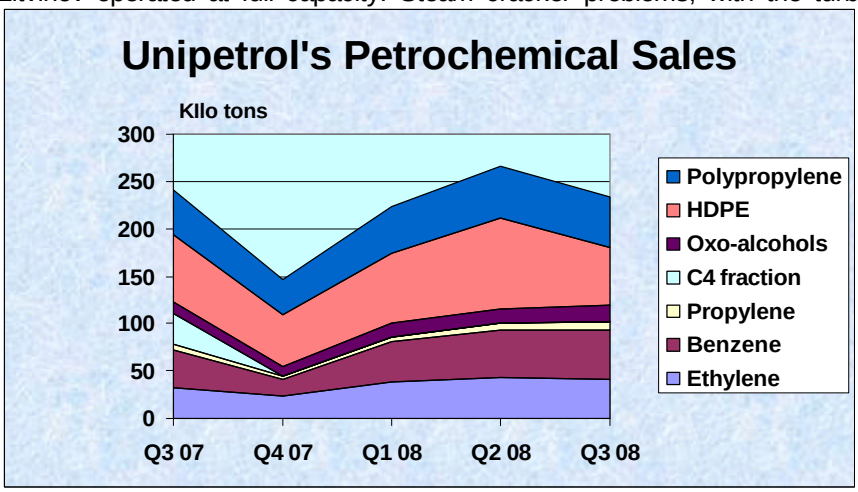
CENTRAL & SOUTH EAST EUROPE

Petrochemicals

Unipetrol increases production but expects lower profits for Q3

Unipetrol expects its third quarter earnings before interest and tax (EBIT) will likely be lower than the Kc 1.01 billion posted in 2007. Polyolefin margins in petrochemicals were down 24%, but showed an 11% rise against the second quarter this year. In refining, sales were driven by a 37% year-on-year jump in diesel sales. Unipetrol posted an 80% year-on-year drop in net profit in the second quarter after a steep rise in the price of oil squeezed margins, and the company has abandoned its full-year EBIT target of Kc 4.8 billion. Unipetrol undertook a 21 day shutdown from 6 October at its ethylene cracker at Litvinov.

During the third quarter, the naphtha price remained flat against the previous quarter at €637 per ton, but still up 30% against 2007. With naphtha feedstock prices starting to fall towards the end of the third quarter, Unipetrol witnessed evidence of improving margins. Petrochemical production in the third quarter saw much higher volumes than in 2007, when a major shutdown was in process. Unlike 3Q 2007, all petrochemical units at Litvinov operated at full capacity. Steam cracker problems, with the turbine driving the cooling compressor, influenced polyethylene production meaning that some of the grades could not be produced. Despite this, the steam cracker increased its production by 29% against last year.



All monomer and agro products recorded growth of volume sales against Q3 2007. Ethylene increased by 31%, C4 fraction by 36%, benzene by 24%. Sales of oxo-alcohols increased by 42%, whilst urea rose by 17% and ammonia by 7%. Polyethylene sales were lower more than 11% due to technical problem on ethylene unit connected with no production of injection grades on polyethylene unit. Polypropylene sales were higher by 10%.

Slovnaft-new LDPE plant

Slovnaft Petrochemicals has selected LyondellBasell's Lupotech T technology for a new 220,000 tpa LDPE plant, to be built at Bratislava. Start up is expected in 2012. Key features of Lupotech T technology include low manufacturing and investment costs, fast start up and grade changes. MOL's petrochemical division is the eight largest player in the European polyethylene and polypropylene markets, and comprises both TVK and Slovnaft petrochemical businesses. The combined polymer output of Slovnaft Petrochemicals and TVK has increased to more than 1.2 million tpa of PE and PP, making it the second largest producer in Central Europe after the Orlen group.

Rompetrol-KazMunaiGaz

After paying $1.6 billion for 75% of Rompetrol in 2007 KazMunaiGaz is assessing a restructuring plan, which is expected ti leave the company to deal only with oil and gas. According to sources inside the company, activities such as petrochemicals are to be sold if the right price can be found. Potential buyers may be scarce in the current climate, but Rompetrol's petrochemical operations are well placed on the coast so ultimately there could be reasonable interest.

At present, Rompetrol Petrochemicals is focused on three main directions. These include injection, blowing, film, monofilaments, fibre, raffia polypropylene grades production and propane; petrochemical products trading which are purchased from third producers and sold under Rompetrol Petrochemicals brand (PP special grades, HDP, LDPE, PET, PVC); and auxiliary activities (brine and steam production, chemical products storage, laboratory analysis, etc.), for internal and Rompetrol Refining necessities.

Chemicals

Ciech, privatisation and Polish chemicals

Nafta Polska and the Polish State Treasury are expected soon to sign an agreement, which will allow Nafta Polska to supervise the privatisation of Ciech. This possibly could be finalised by the end of 2009. The conglomerate will be put up for sale together with the stakes in Zaklady Azotowe Tarnow (ZAT) and Zaklady Azotowe Kedzierzyn (ZAK). Ciech's main strategy has been to push for the consolidation of heavy chemical companies, and is currently trying to take key stakes. Ciech wants to take part in the IPO of ZAK, which will issue around zl 500 million ($246.4 million) in new shares.

Polish Chemical Production (unit-kilo tons)

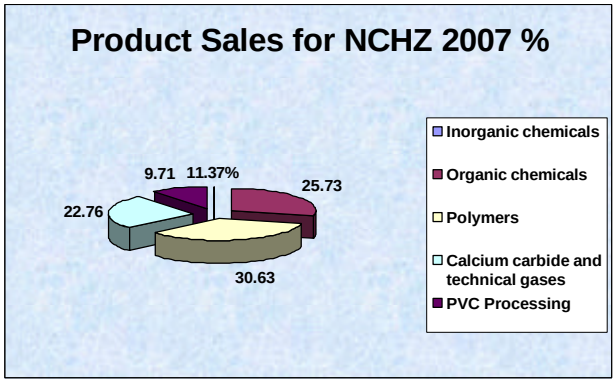
Product	*Jan-Sep 08*	*Jan Sep 07*
Caustic Soda	65.9	67.0
Soda Ash Light	245.2	272.3
Soda Ash Heavy	663.7	630.5
Ethylene	402.5	444.0
Propylene	280.0	270.8
Butadiene	41.6	42.2
Toluene	93.5	91.2
Phenol	33.3	36.5
Caprolactam	117.9	119.0
Polyethylene	258.6	289.3
Polystyrene	90.2	83.1
PVC	192.3	225.2
Polypropylene	191.3	212.0
Synthetic Rubber	96.3	92.7
Pesticides	25.8	25.3

The Treasury could also allow the transaction to encompass Anwil. Accordingly, ZAT, ZAK and Ciech have signed a letter of intent concerning the purchase of this company. These four companies would be sold to one investor, which would have to guarantee the execution of the investment plans adopted by Ciech. However, unless the Treasury manages to find one investor, Ciech, ZAT and ZAK will be privatised separately.

PKN Orlen will announce in early November what percentage of Anwil it plans to unload, although it has been suggested at around 85%. The Ciech-led group will finance 10-20% of the purchase from its own cash and the rest will be financed through raised debt. Several months ago, PKN Orlen alluded to the prospect that it would will present a new development strategy by the end of the year, which might include a consideration to sell Anwil's fertiliser business. PKN Orlen has been at odds with the fertiliser business, which it feels does not correspond with refining and petrochemical production of PKN Orlen. Anwil, Poland's largest PVC producer is valued at around zl.1.5 billion.

Novacke chemicke zavody sale

Novacke chemicke zavody (NCHZ) in Slovakia has been sold to Disor Holding registered in Cyprus, a company that was created earlier in 2008. The company is one of the smallest PVC plants in Europe, producing both emulsion and suspension grade, in addition to a range of inorganic chemicals. Several companies were interested initially in NCHZ, including the former "short-term owner" of NCHZ Czech Inekon and Spolchemie.



When the sale process was launched in December 2007, a total of 21 companies indicated their interest. However, in the final round there was only one serious investor left. Disor Holding. The sale of NCHZ was organised by the J&T group that controlled about 52% of the company's shares. It is likely that Disor will merely hold NCHZ for a period and that the company may be broken up and some parts.

In 2007, 86.42% of product sales went to export (mainly to Poland, Germany, the Czech Republic, Italy, Austria, Ukraine and Spain). However, due to the swift strengthening of the Slovak crown against the euro, it culminated in losses at the end of the year. The best results in sales of organic chemicals cam from triisopropanolamine 85 (exported to Spain, Turkey and Italy) and for sales of polyols (exported to Poland and Spain). .Against 2006, there was a significant increased in sales of Novamal, ethylene chlorhydrin and chloroparaffins.

Oltchim-PCC

Oltchim held a GSM on 10 October whereby the shareholders approved a share capital increase by 2.9 million lei (€0.8 million) to 35.3 million lei (€9.4 million), through the issuance of 29.3 million new shares.

This follows the decision by the State Assets Valorification Authority (AVAS) to abandon the capital increase of Oltchim, after converting the debts in shares.

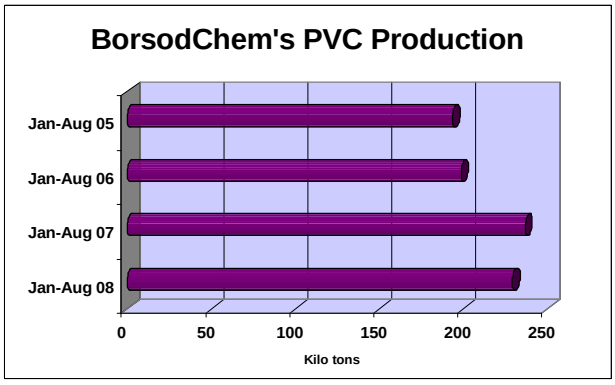
PCC, which is already a small shareholder in Oltchim, is considering the purchase of the company. According to the central depository, the majority shareholder of Oltchim in Ramnicu Valcea is the State Asset Realization Authority, with 53.26%, PCC owns 12.9%, the Financial Investment Company Oltenia, 5.93%, Oltchim SA, 0.001% and other shareholders own 27.91%.

PCC Rail will officially begin its operations in Romania in Q1 2009 and initially it will service Oltchim. PCC also intends to build five micro hydroelectric power stations in Romania in the next years to come, with the investment for every station varying between 10 and 15 million euros. The group aims to build 19 micro hydroelectric power stations in total for the South-East European energy market.

Spolchemie-Hexion

Hexion Specialty Chemicals has entered into a definitive purchase agreement with Spolchemie to divest a part of Hexion's global specialty epoxy resins business. However, the transaction is contingent upon the completion of the pending merger between Huntsman and Hexion and the receipt of approval from both the US Federal Trade Commission (FTC) and European Commission. The FTC has already provided approval.

If pushed through, Hexion will sell the business to CHS Resins, a newly formed daughter company of Spolchemie including Hexion's epoxy production facilities at Stuttgart and Duisburg in Germany, and manufacturing sites at Argo, Illinois and Norco, Louisiana in the US.



BorsodChem

Third quarter results for BorsodChem are expected to be affected by the TDI outage in September. Despite heavy focus on MDI and TDI, BorsodChem is still heavily influenced by PVC production. Capacity was increased several years ago, as illustrated by the increased production volumes in the past two years for the period January-August.

BorsodChem's Q2 profit fell 96% due to losses on foreign currency loans, even though sales rose 41% to Ft 63 billion. The fall of the forint has been rapid since the global financial crisis erupted, with the government posting a 3% interest rate rise in late October to support the currency.

RUSSIA

Russian chemical industry

An immediate impact in Russia of the combined fall in oil prices and global financial crisis is that feedstock costs for petrochemical production have dropped significantly in the past month. Whilst lower oil prices are not welcomed by the Kremlin or the oil and gas companies, they are well received by the petrochemical industry in Russia which often struggles to pass on higher costs to end-users. Unfortunately, high oil prices are also associated in Russia with economic prosperity and so petrochemical producers are already bracing themselves for less robust growth rates in the next few quarters.

SIBUR stated on 23 October that it planned to reduce output at some plants, whilst adopting a more prudent attitude towards spending. Although details are yet to be specified, the management is taking steps to address the impact of the negative trading environment in which a key focus is to reduce costs. At the same time, according to the management the group's strategy on investment into feedstocks and petrochemicals remains unchanged.

Russian chemical production Jan-Aug 2008

The chemical industry has been working relatively well this year until now, with total chemical output rising 2.3% in the first eight months against 2007. Polyethylene production in Russia rose 7.4% in the first eight

months of 2008, totalling 853,200 tons, whilst other polymers fell. Polypropylene has fallen by 11.3% to 335,800 tons due mainly to the stoppage at Stavrolen at Budyennovsk. PVC dropped 2% to 393,000 tons due to the halt in production at Azot at Novomoskovsk. Polystyrene fell 4.9% to 174,000 tons due to maintenance turnarounds.

Production of rubber and plastic products rose 16.1% in this period, whilst fibres continue to go backwards. Production of fibres amounted to 89,200 tons, which was only 86.3% of the volume achieved in 2007. For kapron production, Shchekino Khimvolokno and SIBUR-Volzhskiy both reduced output in the first eight months of 2008 due to technical upgrading, although output made a recovery in August. This was due to revived output at Kurskkhimvolokhno following the takeover of Kuibyshevazot earlier this year.

Russian Commodity Exports				
	Kilo tons	Kilo tons	$ billion	$ billion
Product	Jan-Aug 08	Jan-Aug 07	Jan-Aug 08	Jan-Aug 07
Nitrogen Fertilisers	5.82	6.21	2.02	1.23
Phosphate Fertilisers	5.97	6.21	2.00	1.05
Ammonia	2.24	2.06	1.04	0.52
Synthetic Rubber	484.00	452.60	1.48	0.82
Methanol	1.29	944.00	0.46	0.32

In the main chemical commodity areas, caustic soda was the same as last year at 855,000 tons whilst fertiliser production rose 2% over the same period of last year. Sulphuric acid production increased, for example, by 5.4% in the first eight months of 2008, to 6.673 million tons. Exports increased 22%, to 20,900 tons of which nearly all was shipped to Kazakhstan.

Domestic demand is likely to be lower in 2009, with growth rates for some of the main polymers not as attractive as in recent years. Russian petrochemical plants may need to increase exports in order to maintain high utilisation rates, with China being the most likely end-destination. At least until now, none of the big petrochemical projects planned for Russia have been affected by the financial crisis, but there are several examples in the oil industry of projects being postponed until a later date.

Petrochemicals

Nizhnekamskneftekhim-REACH

Nizhnekamskneftekhim has started work on pre-registration of 33 chemical substances under the requirements laid out by REACH. The company plans to participate in a forum on information interchange about these substances, and also is ready to co-operate with the participants interested in their registration.

Products pre-registered by NKNK for REACH
Ethylene
Propylene
Ethylene Oxide
Propylene Oxide
Ethyl cellulose
Ethyl Carbitol
MEG, DEG, TEG, PEG
C12-C14, C16-C18, C20-C26 alpha-olefins
Propylene Tetramer & Trimer
Isobutylene
Styrene
Butadiene
Isoprene
Hexene-1

The Republic of Tatarstan Arbitration court has rejected the claim by Nizhnekamskneftekhim to overturn the decision of the Federal antimonopoly service, that ordered the company to pay a penalty of 71 million roubles. The case dates back to 2006 over pricing for ethylene charged by Nizhnekamskneftekhim to Kaustik at Sterlitamak, which was later decreed unfair by the anti-monopoly commission.

Nizhnekamskneftekhim has reduced its energy costs this year after investments into its own power sources. Repairs have been carried out on the ethylene pipeline in order to avoid delivery problems. Ethylene oxide production at Nizhnekamskneftekhim rose 6.4% in the first three quarters of 2008, following a catalyst replacement.

SIBUR-Holding-feedstocks West Siberia

The institute Omskneftekhimproject has won the contract for designing the new unit at Tobolsk for the processing of wide fractions of light hydrocarbons (SHFLU). The new complex will be capable of producing 5.8 million cubic metres per annum, which marks an 80% increase over the current capacity at Tobolsk. This represents a key project for SIBUR-Holding and the provision of feedstocks. Omskneftekhimproject also won a tender recently for the design of a petrochemical complex in Kazakhstan, including 496,000 tpa of paraxylene.

SIBUR has awarded Fluor a contract for engineering, procurement and construction management for a gas processing expansion project in Noyabrsk in West Siberia. Fluor's project scope includes the EPCM services for the expansion and upgrade of the Vyngayakhinsky compressor station in the Noyabrsk region, the compressor station 3 of the Nizhnevartovsk gas processing complex, and the Vyngapurovsky gas processing plant and associated pipelines, in addition to a liquefied petroleum gas storage and loading facility in Noyabrsk. The Vyngapurovsky gas-processing plant is part of the SIBURrTyumenGas group.

SIBUR-Holding has signed an agreement with the Yugra region regarding a programme of social and economic development. The region includes the Nizhnevartovsk and Belozern gas processing plants, and also the South Balyksk plant.

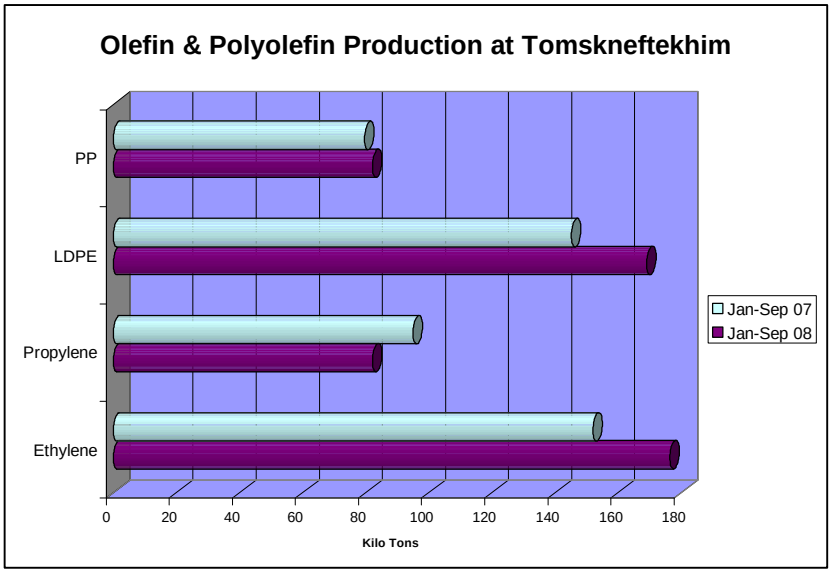
SIBUR-Holding, investments at Kstovo & Tomsk

Technip has been awarded a €45 million contract by SIBUR Neftekhim for engineering and procurement to expand the ethylene plant at Kstovo. The plant will be based on Technip's proprietary technology. During Phase 1, the plant will be expanded to a capacity of 360,000 tpa. In Phase 2, it would be further expanded to a capacity of 450,000 tpa. Technip's Zoetermeer centre will execute the contract, which follows the basic engineering contract already carried out by Technip.

SIBUR-Holding has stated that it plans to invest 15 billion roubles into modernisation and expansion at Tomskneftekhim over the next few years. Most of the focus will on polyolefins, with an expansion of capacity by 230,000 tpa, whilst ethylene will be expanded to 380,000 tpa. The two new polyolefin plants will comprise 220,000 tpa of polypropylene and 140,000 tpa of polyethylene.

SIBUR plant news

SIBUR's management is considering possible reductions in output in response to the financial crisis, although the investment strategy remains unchanged.



In the first three quarters of 2008 Tomskneftekhim increased ethylene production by 24,000 tons, whilst propylene was down 13,000 tons due to the use of lighter feedstocks. Processing of plastics increased 7.3% in the first three quarters. SIBUR-Khimprom completed the modernisation of the ethylene plant in August, which have improved the electrical safety and operational reliability. SIBUR-Holding has reduced cost of production from SIBUR-Neftekhim. Propylene has fallen in price by 1,000 roubles, to 32,000 roubles per ton, C9 fractions by 2,000 roubles to 16,000 roubles per ton, MEG by 2,000 roubles to 41,000 roubles per ton, PVC by 1,000 roubles, to 44,000 roubles per ton. Other products from SIBUR-Holding include isobutanol, which dropped by 1,000 roubles, to 37,000 roubles per ton whilst SIBUR-PET has reduced prices by 3,000 roubles to 43,000 roubles per ton.

Kazanorgsintez-turnover increase

Kazanorgsintez increased turnover by 17% to 17.88 billion roubles in the period January-August 2008, due in part to new production capacity and in part to higher product prices. The start of the bisphenol A plant has been a major development for the company, coupled with the increases in HDPE production. The profit on sales in the first three quarters equalled 750.3 million roubles, which was way down on 2007 due principally to higher costs. Currently, Kazanorgsintez is undertaking tests on the new ethylene furnaces supplied by Technip for the ethylene-500 unit. The two-chamber furnace from Technip produces 36 tons per hour for 65% conversion of ethane. Whilst the primary feedstock is ethane, propane will be drawn for

the E-60 plant which produces propylene. The start of work on the new pyrolysis furnace took place in March 2008.

Uralkhimmash has recently supplied two 5-section refrigerators to Kazanorgsintez used in the production process for ethylene and polyethylene. Previously, Uralkhimmash supplied three spherical tanks in 2006 to Kazanorgsintez for butene storage, eight further spherical tanks in 2007 for ethylene, whilst partly supplying the equipment for the new polycarbonate plant.

Bulk polymers

Gazprom may transfer Novy Urengoy project to SIBUR-Holding

Gazprom may consider transferring the Novy Urengoy gas chemical complex to SIBUR-Holding, as the group is finding it difficult to see where the polyethylene plant would fit into its structure. As mentioned last month, construction of the LDPE plant at Novy Urengoy has been revived according to reports, although the project still seems to have questionable justification.

The initial construction of the polyethylene plant actually started in the Soviet era, with expensive technologies bought and delivered, but were never installed due to a lack of finance. Gazprom has sought to find a partner for the project, but unsurprisingly interest has been minimal at best and so the holding company has decided to press ahead alone. Gazprom is desperate to bring the project to a successful conclusion and seems unable to write the project off, even if the technologies purchased are considered to be outdated.

A major advantage of the Novy Urengoy project is the capability to produce polyethylene at twice or even three times the cost of production at current LDPE plants in Russia. There is a theory that Gazprom would ensure that the other LDPE plants, which belong to companies where it owns equity or possesses a strong hand, would be closed thus creating the market opportunity for the Novy Urengoy project. These plants would include Tomskneftekhim, Salavatnefteorgsintez and Kazanorgsintez, which all seem to be gearing their strategies based on HDPE. Should those three plants close that would leave only the Angarsk and Ufa plants as LDPE producers to compete with Novy Urengoy. Whether LDPE has a future is unclear, but Gazprom seems intent on building the plant.

Nizhnekamskneftekhim-HDPE plant

Nizhnekamskneftekhim has completed the installation of 100 metre high torch installation, which is the last of the large equipment side of the polyethylene project. The HDPE plant is close to completion with electrical equipment under preparation for pre-commissioning and start-up may happen later this quarter or early in 2009.

Polyethylene market in Russia

Consumption growth for polyethylene has been notably more modest this year than in recent years, showing a 2% increase in the first seven months of 2008 to 852,870 tons. The rise in LLDPE consumption was the most noticeable feature. LDPE consumption increased by only 0.4% in the period January-July 2008, totalling 338,060 tons. Russia produces more LDPE than it can consume, although downtime at Tomsk and Angarsk in the third quarter affected export availability. HDPE consumption dropped 2% in the first seven months of 2008, totalling 453,720 tons. The decrease in import of film grade feedstock from Ukraine and Uzbekistan has been partially compensated by increased imports from LG and Chevron Phillips. Over the course of the seven months, LLDPE consumption increased 49% and totalled 61,200 tons. Kazanorgsintez is the only domestic producer of LLDPE at present.

Russian Polyethylene Market (unit-kilo tons)		
	Jan-Jul 08	Jan-Jul 07
Production	760.7	704.3
Exports	128.3	101.8
Imports	220.6	237.2
Consumption	852.9	839.7

Fluctuations in supply availability in HDPE have been seen in Russia this year, driving prices higher, but the picture could alter after the start of the Nizhnekamskneftekhim plant which is expected soon. As for existing producers, Kazanorgsintez produced HDPE 276 in the first half of the year, but has since operated sporadically. Stavrolen does not produce sufficient material to meet full demand, with the only other CIS source being from Shurtan Gas Chemical Complex in Uzbekistan. The Kalush plant in Ukraine has been

closed since June and is unlikely to restart before February 2009. As a result of these market factors, HDPE prices have risen sharply since the start of the year. Factors likely to reverse pricing trends include the prospect that Kazanorgsintez could restart HDPE blow grade soon, whilst Nizhnekamskneftekhim plans to start its new plant in November or December.

Russian Polypropylene Market 2008 (unit-kilo tons)		
	Jan-Aug 08	Jan-Aug 07
Production	327	308.5
Exports	21	15.5
Imports	81	72.3
Consumption	387	365.3

Polypropylene market in Russia

The rate of growth in polypropylene consumption in Russia has tended to slow this year in comparison with 2007 and 2006, but even so has still achieved an increase of 11% in 2008. Most of the increase in domestic consumption has been served by domestic production rather than imports. Exports have been reduced this year to 6% of total production against 10% in 2007. In the period January-August 2008, Russia produced a total of 327,030 tons of polypropylene, which was 6% up on 2007. This is despite the unplanned outage at Budyennovsk, which caused the plant to stop for several months. Imports have been helped by the Budyennovsk outage and were up nearly 9,000 tons so far this year.

Tomskneftekhim-polypropylene catalysts

Tomskneftekhim is progressing with its research into the use of titanium-magnesium catalysts for the production of polypropylene. Experiments conducted in July this year showed the effectiveness of TM catalysts, with energy consumption and costs being reduced. The new catalysts system will be developed by SIBUR-Holding, together with the Italian company FasTech and the Russian company Plastpolimer by 2011. Preparations for installation will be conducted between September 2008 and March 2009. Not only will costs be reduced, but also new products will be possible through the new catalyst. The project has been carried out as part of the programme for the modernisation of domestic polyolefin production, which is being supported by the Institute of Catalysis at Novosibirsk.

Russian Imports of PVC by Company (unit-kilo tons)		
Company	***Jan-Jul 08***	***Jan-Jul 07***
Xinjiang Tianye	58.9	12.8
Xinjiang Zhongtai	44.0	21.5
LG	28.9	5.4
Formosa	19.6	f0.0
Ineos	16.1	13.4
BorsodChem	14.8	22.1
Tianjin Dagu	7.5	1.5
Hanwha Corporation	3.4	9.3
Others	0.5	9.0
Total	**193.7**	**95.0**

Russian PVC market

Imports of PVC from China amounted to 128,984 tons in the first seven months of 2008, which was more than double the total in the same period in 2007. The major importer in 2008 has been Xinjiang Tianye, which increased volumes from 12,800 tons in last year to 58,900 tons this year.

Although Russian PVC production is slightly up this year, it has not been sufficient to cover the increases in demand and this has led to further rises in imports. PVC suspension demand rose in the first seven months, totalling 555,100 tons. However, as indicated in last month's issue some areas of consumption are starting to feel the impact of economic events and growth rates to soften as a result to 7-9%. Window profile manufacturers in Siberia, for example, have seen output levels drop 25-30% in recent months and this trend is expected to be witnessed in some other areas. The Russian PVC market remains robust, and it is too early to guess at if the current financial crisis will impact on this growth. However, even if presupposing a decline in growth in the immediate future, PVC remains the one commodity polymer with a sizeable deficit that ca only be met by the introduction of new capacity.

Synthetic Rubber

SIBUR-Holding-synthetic rubber investments

Togliattikaucuk has reached agreement to with Pirelli and Rostechnologi for the supply of rubber to the new tyre plant in the Samara region. This new plant is expected to produce 3.5 million tyres for cars per annum, and 700,000 tyres for trucks. Togliattikaucuk states it will be able to sell most of its rubber output to Pirelli and SIBUR-Russian Tyres. The company is also planning to build a new isoprene rubber plant.

The investment committee of SIBUR-Holding has approved the construction of a new thermoelastomer plant at Voronezhsintezkaucuk, with a value of 2.5 billion roubles. The capacity of the new facilities will total 50,000 tpa,

in addition to the current capacity of 35,000 tpa. Construction is expected to start in 2009, with a period of 2.5 years for completion.

SIBUR-Holding has approved plans to invest 1.8 billion roubles into the Krasnoyarsk Synthetic Rubber Plant, as part of the modernisation programme up to 2015. Synthetic rubber capacity at Krasnoyarsk is projected to increase from 34,000 tpa to 56,000 tpa, whilst the company also plans to start the production of butadiene and powder butadiene Nitrile rubber. The regional authorities plan to support the plant by offering tax privileges. The Krasnoyarsk Synthetic Rubber Plant was created in 1947 and was incorporated into the SIBUR group in 2001.

Omsk Kaucuk ends bankruptcy status

Omsk Kaucuk has had its ten year period of bankruptcy ended, having agreed with the creditors to cancel all outstanding debts. Novatek is considering buying some of the shares in the company, suggesting that it may wish to revive its involvement in the Omsk polypropylene project. Since 2005, Omsk Kaucuk has operated on the basis of processing, raw materials supplied from Titan, but now the company is free to produce for its own profits. Relations between Omsk Kaucuk and the Omsk refinery deteriorated after Gazprom Neft took over ownership from Sibneft.

Seven projects are being studied by Omsk Kaucuk, including auxiliary manufactures, updating of the engineering infrastructure, reconstruction of water blocks and the construction of its own energy sub station. The main project involves the construction a unit for propane-propylene fractions, to support the polypropylene plant under construction at Omsk. Investments into butane dehydration are also included, designed to meet raw material requirements.

SIBUR-Amtel merger cancelled

Talks between Amtel-Vredestein and SIBUR have been halted over a planned merger of their tyre assets. The decision has been taken in response to the global financial crisis. Amtel, which has debts amounting to around $800 million, has faced problems refinancing its debt amid the global financial crisis and liquidity crunch. It was forced to suspend production at its largest plant last month due to a shortage of working capital. One of the conditions of the initial agreement was to raise $50 million from the debt market, which in these market conditions has proven impossible. The initial agreement, posted on Amtel's website, places four conditions on the deal. One of the conditions was to raise $150 million, $50 million of which was to come from a closed subscription of new ordinary shares of SIBUR.

Aromatics & derivatives

Russian xylene market

Production of orthoxylene and paraxylene in Russia fell 9% in the first seven months of 2008, down to a total of 296,400 tons. The reduction was due mainly to lower volumes of output at the Gazprom-Neft owned Omsk refinery, which was due to the maintenance in June and July. For orthoxylene, consumption has fallen due to lower domestic output of phthalic anhydride, which itself is down by 6% on 2007.

In total, orthoxylene consumption fell 7% to 67,300 tons in the period January-July 2008. Exports increased 4% to 52,400 tons due to lower consumption on the domestic market, with almost all exports going to Finland. Prices of orthoxylene have risen 36% since the start of the year, rising from $880 per ton DAF/FOB Russian border to $1200 per ton.

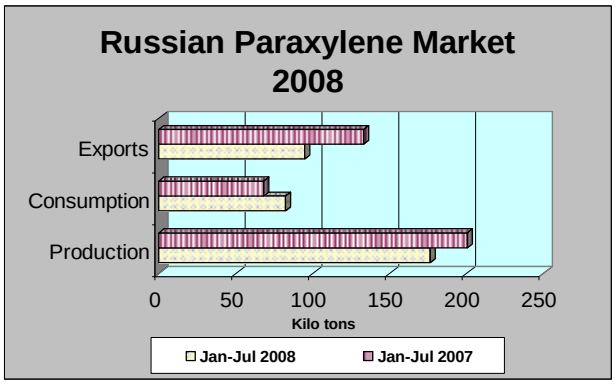
Russian Orthoxylene & Paraxylene Production (unit-kilo tons)

Producer	Jan-Jul 08	Jan-Jul 07
Gazprom-Neft	130.5	155.4
Ufaneftekhim	96.6	98.6
Kirishinefteorgsintez	69.3	69.3
Production Total	296.4	323.3

Gazprom-Neft and Kinef accounted for 64% and 33% of total exports respectively, with the other producer Ufaneftekhim accounting for the remainder. With the main Russian phthalic anhydride producer Kamteks-Khimprom down in August for a scheduled turnaround, the export trend is expected to continue for the short term.

The picture for paraxylene is very different and product sales on the domestic market increased 21% in the first seven months of 2008, totalling 82,200 tons. The expanding requirements of Polief's PTA plant at

Blagoveshchensk has driven up consumption. This year Polief aims to produce its highest yet total for PTA (in 2007 production was 183,400 tons).



Despite the increase in demand, production from the three Russian plants in the first seven months of 2008 totalled 176,800 tons, which was 12% down against 2007. This fall was largely for the same reason as orthoxylene, in that the Omsk refinery shut in June and July, in addition a shutdown in April at Ufaneftekhim. As a result of lower output and higher demand, paraxylene exports from Russia fell to 71% of the volume in 2007, totalling 94,700 tons. Ufaneftekhim remains the main supplier on the domestic market, to Polief, whilst Gazprom-Neft at Omsk remains the main exporter.

Whilst the main direction for Russian paraxylene exports is to Finland, exports to Belarus amounted to 36,700 tons in the first seven months of 2008. Since the start of the year Russian paraxylene export prices have risen 52% from $946 per ton DAF/FOB Russian border to $1440. This situation has been caused by higher costs on the one hand, and the need to ensure that Polief is sufficiently supplied on the other. Of the current refineries, only Omsk is expanding its paraxylene unit whilst a new grassroots plant of 151,000 tpa is under construction at Nizhnekamsk.

Russian benzene market

Benzene produced in Russia from either crackers or refineries in 2008 has been less available, and consumption of oil based benzene has declined as a result. The major producers of cracker and refinery benzene include Nizhnekamskneftekhim, Salavatnefteorgsintez, Gazprom-Neft (Omsk) and Ufaneftekhim, which together provided 74% of total production in the first eight months of 2008. A 2% drop was noted in oil based benzene production against 2007, down to 628,700 tons, due mostly to the maintenance shutdown at Omsk in June and July. Supplies to the merchant market fell 8% to 283,600 tons, and thus consumption fell 1% to 602,800 tons.

Russian Oil Based Benzene Market 2008 (unit-kilo tons)

	Jan-Aug 08	Jan-Aug 07
Production Total	628.7	641.5
Exports	25.9	34.1
Imports	0	0.0
Consumption	602.8	608.9

Russian Coal Based Benzene Market 2008 (unit-kilo tons)

	Jan-Aug 08	Jan-Aug 07
Production Total	224.8	208.1
Exports	19.9	5.5
Imports	11.2	5.1
Consumption	216.1	207.8

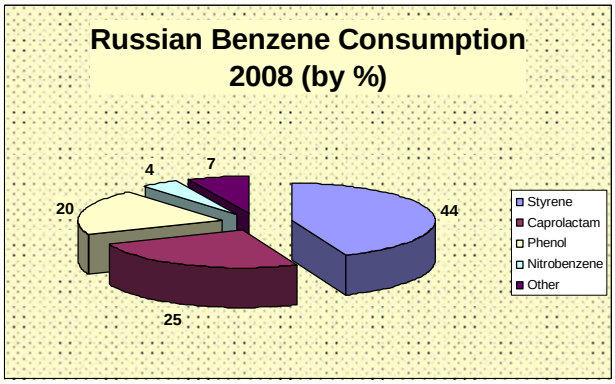
Whilst oil based benzene has been down, coal based benzene consumption has risen 4% in the period January-August 2008 to 216,100 tons. The volume of coal based benzene production has witnessed a 10% increase in this period, amounting to 182,700 tons. The largest suppliers include Magnitogorsk MMK, Severstal, and Altai Koks which combined accounted for over 50% of deliveries this year.

Securing benzene for non-integrated consumers has been difficult for several years, with limited market availability from the major producers. For instance, benzene produced by Stavrolen is normally used by Saratovorgsintez for the production of phenol and acetone, and there is little left for the merchant market. Nizhnekamskneftekhim uses benzene mostly for styrene, and sometimes needs to supplement its production with purchases.

Styrene accounted for 44% of total Russian benzene consumption in the period January-August 2008. Nearly all styrene production is integrated with benzene production in Russia, and so the main problems of availability tend to affect consumers in the open market such as for caprolactam and phenol. The shortage of benzene for the merchant market has been a problem since around 2002 due to parallel rises in consumption and the simultaneous increase in ecological standards for gasoline production. This latter requirement has reduced the output of benzene at refineries and thus the curtailment of lead based additive production in Russia had a downward effect on benzene production.

The only investments in oil based benzene production include the Omsk refinery, which plans to expand to 360,000 tpa, and the new Taneko complex at Nizhnekamsk. The biggest investments are being undertaken by

the metallurgical companies, such as the jv between MMK at Magnitogorsk and Kuibyshevazot entitled MMK Benzol.



The benzene deficit has caused the government to increase tariffs on export duties, whilst Kuibyshveazot has argued for a change in import duty policy. Kuibyshevazot wants to see the 5% import duty on benzene cancelled due to shortages in the domestic market. Kuibyshevazot will need to continue importing benzene in the short term to support production of caprolactam and polyamide. Earlier this year Kuibyshevazot created jv with Magnitogorsk MMK for the production of benzene at Togliatti, based on coal resources. The jv MMK Benzol will produce 50,000 tpa of benzene by 2011, which will partly help Kuibyshevazot's annual requirement of around 140,000 tpa. By 2015, this will have increased to 180,000 tpa following expansion in caprolactam capacity. Kuibyshevazot had earlier considered building its own benzene plant based on toluene feedstock, but now has embarked on the coal based jv.

Ukraine runs a surplus in benzene, but most of it is coal based on old technology and is not suitable for modern petrochemical production. Benzene exports from Russia are small, although exports to Belarus increased from 800 tons in January-August 2007 to 12,400 tons in the same period in 2008. This was due to shortages from the Belarussian plant Naftan. Benzene is used in Belarus for the production of caprolactam, which has risen 9% this year. Coal based benzene exports from Russia rose 3.6 fold this year to 19,900 tons, and were sent mainly to Poland, the Netherlands and Finland.

About 25% of Russian benzene production originates from the metallurgical sector, including companies such as Severstal, Koks at Kemerovo, and Magnitogorsk MMK. Benzene produced from coal was considered inferior to oil and additional processing stages are required, but technology has improved in recent years making the differences less significant.

Organic chemicals

Russian acetic acid market

Demand for acetic acid has dropped slightly in Russia this due to reduced purchases from the paints industry. However, this was offset to some degree by an increase seen in the consumption of acetic acid in agricultural products. Azot at Nevinnomyssk increased acetic acid production by 13% in the first eight months of 2008, totalling 101,000 tons. Azot used 20,600 tons captively in the first eight months, whilst exports totalled 15,300 tons for a sum of $8.7 million. The main export destinations included Belgium, Italy and Latvia, accounting for 22.4%, 21.8% and 22.2% respectively. Imports into Russia totalled 14,800 tons in the period January-August 2008, most of which came from Azot at Severodonetsk in east Ukraine.

Russian butanol demand softens

In the first half of 2008, consumption of butanols is estimated to have totalled 48,700 tons and 5% higher than in the same period last year. However, demand has softened towards the end of the third and start of the fourth quarter, mainly due to lower purchases from Akrilat at Dzerzhinsk. The main outlets for butanol consumption in Russia include butyl acrylate and butyl acetate. With butanol production totalling 131,400 tons for the first six months, consumption accounted for less than 40% of total output.

The average utilisation rate for the four butanol plants in Russia is roughly 85%. Exports of butanols in the first half of 2008 totalled 82,600 tons, which was 10% lower than in 2007. Most of the export volume went to China, including 41,500 tons of n-butanols and 41,100 tons of iso-butanol. Salavatnefteorgsintez accounted for (42% of Russian exports in the first half of the year, with Angarsk Petrochemical Company taking a 33% share. Butanol consumption is expected to be lower in the fourth quarter due to seasonal factors, whilst at the same time costs are expected to rise.

Russian phthalic anhydride market

In the first half of 2008, Russia produced 51,600 tons of phthalic anhydride which was 8-9% down on 2007. Demand dropped 3-4%, caused largely by reduced purchases from the paint and varnish manufacturers. Due to higher priced raw materials for paint and solvent production, companies in the sector have been compelled to reduce capacity utilisation.

In the first six months of 2008, 34,800 tons of phthalic anhydride were sold on the domestic market, 6% less than in 2007. Imports in the same period were 4,700 tons, which showed an increase of 21% over last year. This means that imports accounted for 12% of consumption in the first half of 2008, against 9% in the same period in 2007. Russian exports have fallen this year due to lower output, dropping by 13% to 17,000 tons for a total sum of $19.770 million. Nearly all exports went from Kamteks-Khimprom at Perm, the largest Russian producer. China is the largest export destination, accounting for 36% of shipments, with Finland taking 18%. Kamteks-Khimprom uses Rosplast and Uralkhimprom for exporting phthalic. Belarus is the main source of imports into Russia, being delivered from the sole producer from Lakokraska at Lida.

Ammonia & Methanol

Ammonia investments

Capital investments for 2008 for Azot at Cherepovets comprise 40 million roubles, with focus on the ammonia-2 plant. Salavatnefteorgsintez is expanding its capacity for urea from 800 to 1,000 tons per day, whilst at the same time reducing expenses and improving product quality. The goals for Togliattiazot are modernisation of existing units and to utilise more output captively. Against the constant rises in gas prices, all fertiliser and methanol producers are being forced to look downstream with the aim of adding value.

Construction of the new ammonia and methanol complex at Mendelevsk in Tatarstan was started officially on 17 October. The cost of the project is $972.7 million and includes capacities for ammonia at 717,000 tpa, methanol at 230,000 tpa and urea at 717,000 tpa. Haldor Topsoe is the project licensor, with the Japanese company Sojitz Corporation as project co-ordinator. Construction expected to last 35 months, and Gazprom has already reached agreement for annual deliveries of 800 million cubic metres of gas. Most of the ammonia and urea output from Mendelevsk will be consumed in locally for the needs of agriculture, with methanol being sent to Nizhnekamskneftekhim.

Togliazzitazot's Exports 2007 (unit-kilo tons)

Destination	Product			Total
	Ammonia	Urea	Methanol	
Brazil		419.7		419.7
Ecuador		8.1		8.1
Honduras		35.8		35.8
Columbia		19.6		19.6
USA	708.6			708.6
Finland		1.0		1.0
Slovakia			59.0	59.0
Turkey			369.0	369.0
Israel	8.6			8.6
Tunis	366.0			366.0
China	14.7			14.7
Others	92.0	85.0		177.0

Russian ammonia-urea-methanol exports

In the first eight months of 2008, Russia increased ammonia production 2.8% to a total of 8.88 million tons. Amongst the producers, Togliattiazot increased volumes by 5.4% to 1.492 million tons, Azot at Novomoskovsk increased by 6.3% to 1.041 billion tons, whilst Azot at Nevinnomyssk increased 10.3% to 760,600 tons and Azot at Cherepovets by 5.1% to 735,600 tons.

In relation to global production based on 2007 results, Russia accounts for 10.4% of ammonia (13 million tons), 8.9% of urea (6 million tons) and 10.9% of methanol (3.5 million tons). For the domestic market, 27% of ammonia is consumed in Russia, whilst 81.6% of urea and 53% of methanol are also sold domestically. The choice of port for these products for export depends on a number of factors among, including infrastructure, the cost of delivery to the port, congestion of deliveries, and a final direction of delivery of production.

For ammonia exports, the two main ports used by Russian producers are Yuzhniy in Ukraine, where product is sent to the USA, Latin America, etc, and Ventspils in Latvia which is used mostly for deliveries to West

Europe. The main difference between the two ports is that the shipments sent to Ventspils are via rail, whilst to Yuzhniy ammonia is shipped through the Togliatti-Odessa pipeline which reduces costs substantially. Urea exports are conducted through a much wider range of ports, including St.-Petersburg, Novorossiysk and Kaliningrad. Most of the methanol exports are conducted through Hamina and Yuzhniy.

Novocherkassk Synthetic Products Plant-acetic acid
The new owners of the Novocherkassk Plant of Synthetic Products, Moscow based Agro-Invest, is set to proceed with formerly established plans to create two new units and modernise two existing units, at a total cost of 14.8 billion roubles. The largest share of the total, 12.7 billion roubles, will be targeted on the expansion of methanol capacity from 120,000 tpa to 450,000 tpa, and the creation of a new plant for acetic acid with a capacity of 150,000 tpa. The development of derivatives is seen as essential owing to the perceived difficulties in selling methanol on the domestic and export markets. Construction is expected to start in 2010 and be completed by 2013.

Chlorine chemicals

Russian chlorine market Jan-Aug 2008
Russian chlorine production was up slightly at 1% in the first eight months of 2008, to 746,000 tons against 738,000 tons in 2007. Exports totalled 19,300 tons for a sum of $4.3 million in this period, with volumes up to Ukraine (due to the stoppage at Karpatneftekhim) and by contrast down to Azerbaijan (where chemical production has been revived this year). Domestic prices for chlorine in 2008 have averaged 5,100 roubles per ton, before VAT.

Whilst chlorine sales on the open market have been in decline in Russia, captive consumption is expected to see major increases over the next few years due to increased PVC capacity. Chlorine exports to other CIS countries totalled 34,000 tons in 2007, 3.5 fold greater than in 2006. Ukraine was the main recipient of Russian chlorine exports, accounting for 57% of the total. The increase in imports from Russia was forced by the reduction of output at Karpatneftekhim's Kalush plant due to a revamp. Kazakhstan and Azerbaijan also saw increases.

In the first eight months of 2008 Sayanskkhimplast increased caustic soda production by 2.7% to 101,800 tons, Kaustik at Sterlitamak increased production 0.9% to 150,000 tons, and Kaustik at Volgograd reduced production by 1.8% to 132,600 tons. Kaustik at Volgograd achieved turnover of 3.39 billion roubles in the first eight months of 2008, 18% higher against 2007. Liquid caustic production increased 3.2% to 99,453 tons, sodium hypochlorite 1.9% to 6,478 tons and hydrochloric acid 3.8%, to 167,200 tons.

Plastics

SIBUR-Neftekhim, plastics processing
SIBUR-Neftekhim is considering the creation of the centre for processing plastics at the Kaprolaktam site at Dzerzhinsk. The raw materials for processing are to be provided from SIBUR's petrochemical plants at Kstovo, Perm and Tomsk. Since the spring pf 2007, around 16 non-operating units have been dismantled at Dzerzhinsk by SIBUR-Neftekhim which were constructed between 1930 and 1960. Future investments will involve not only PVC but also polyethylene and polystyrene.

Russian polymer film market
Consumption of polymer films increased by a total of 11% in 2007 against 2006, totalling 109,000 tons. BOPP provided the largest majority of films, accounting for roughly two thirds. Capacity for BOPP has increased 12% this year with the start-up of a new plant at Moscow, and now the country total stands at 138,000 tpa. This includes five separate plants, of which three are controlled by the Biaksplen group and are located at Moscow, Kursk and Nizhniy Novgorod. In January this year Biaksplen acquired the Kursk plant from Grinn Plastics and in September it took control of the Rosevoplast plant at Moscow. Rosevoplast is the largest supplier of polymer films on the Russian and CIS market, used mostly in packaging applications. Biaksplen already sells BOPP to Rosevoplast, after having started in 2005. The new company will be called Biaksplen M.

The other two BOPP plants in Russia comprise Novatek-Polymer at Samara and Evromet at Moscow. Although total capacity is sufficient to meet Russian demand, the rate of consumption is rising quickly and Biaksplen plans to start a further line in 2009. In the period January-August 2008, BOPP consumption grew

around 25% against 2007, rising to 66,600 tons. Whilst most of the polypropylene used by BOPP producers is from domestic sources, additives still need to be imported. Although the demand for BOPP is rising some end-users (for example, tobacco companies) continue to import ready packaging on the basis of BOPP. The import share in consumption of a tobacco film is considerable (from 13-15,000 tons of which 50-70% is imported). Domestic producers of BOPP are attempting to challenge imports, but there is a lengthy quality approval procedure required before the end-users are likely to make purchases.

Other plastics news

A new polyethylene pipe plant at the start of October was opened by Gazpromtrubinvest at Volgorechensk in the Kostroma region. This is part of Russia's federal programme of extending gas supplies throughout the country. Previously the plant produced only steel pipes, but has converted to plastics and now produces for a wide range of applications including oil and gas. The new polyethylene pipe plant will produce 100,000 tpa.

Penopleks opened its Novosibirsk plant in 2006 to produce insulation materials based on polystyrene, and in October has started two further lines for decorative-finishing materials. This is the same type of system as in operation at Kirishi.

IVC Group of Belgium has decided not to invest in a PVC floor coverings unit at Yaroslavl due to the change in the global economic environment. Other factors in the decision include the rising costs for plant installation, which has made pay back periods much longer.

Chemical briefs

Air Liquide has established a centre in the Alabuga special economic zone (OEZ), involving an investment of $35 million. The new facilitate wick produce 210 tons per day of liquid oxygen and liquid nitrogen. The enterprise opening is planned for October 2009. Industrial gases will be made for needs of the jv PreissDaimler-Tatneft Alabuga Fibre Glass. The project has received approval from the with Supervisory board of the OEZ.

SIBUR has reached agreement with the Tula region for investment into its subsidiary Plastik at Uzlovaya, including the construction of a new unit for production of polypropylene non-fibre materials and geosynthetic materials with a capacity of 10,000 tpa. Around 1 billion roubles will be invested in the project In 2007; Russia produced around 35,000 tons of polypropylene non-fibre materials, with consumption at 68,000 tons, whilst geosynthetic production amounted to 1,500 tons with consumption at 16,000 tons. SIBUR has made similar investments at its subsidiary Orton at Kemerovo.

Salavatsteklo (Bashkortostan) has started a unit for the production of soluble sodium silicate, after investing 7 billion roubles. The new plant can produce up to 300 tons of sodium silicate per day, which is twice less than the old plant.

Sterlitamak Petrochemical Plant has decided to change its ownership structure, in order to allow more investment. The company has taken a 200 million roubles loaned from Rosbank to cover modernisation projects. The company is the major Russian producer of anti-oxidants.

Turnover from chemical production in the Vologda region increased 2.3 times in the first eight months of 2008, totalling 43.410 billion roubles. Sulphuric acid production rose 16.8% to 1.778 million tons, benzene 56% to 30,200 tons and ammonia 3.7% to 1.284 million tons. The main chemical producers in the Volgoda region include Vologda Wood-Chemical lant, Ammophos and Plastpolimer.

Russian carbon black production saw an increase of 8% in the first half of 2008, due to higher demand both domestically and abroad. Nearly half the production is exported and is directed mostly to Central Europe, including Poland, Slovakia and Hungary. Nizhnekamsktekhuglerod has invested in recent years in technology and personnel, which has helped increase production. In 2007, the company produced 112,200 of carbon black.

LUKoil plans to organise auto chemical goods production at the Perm oil refining factory. Currently the company produces only one type of antifreeze, but the intention is to expand the product range.

Polycrystalline silicon

Nitol Solar has helped create the Russian Association for Solar Power. The company, which is located on the Usolyekhimprom site in the Irkutsk region, will be the first Russian producer of polycrystalline silicon. Vladimir Putin has requested Rosatom (State Nuclear Energy Corporation) to lay the basis for a new solar economic cluster in the Zheleznogorsk district in the Krasnoyarsk region. This would include the construction of a large-scale polycrystalline silicon plant, a product which is currently not produced in Russia although two plants are under construction at Usolye-Sibirsk and Novocheboksarsk. Whereas these two plants will have capacities of 3,700 and 5,000 tpa, the plan for the Krasnoyarsk region is ultimately a 30,000 tpa plant.

Ukraine

Ukrainian benzene market

Lower oil based benzene availability in Ukraine this year has culminated in the growth in demand for coal based benzene. Several of the coke chemical plants producing benzene have improved their technology, thus enabling wider usage and increased exports. Aside the technological improvements, coal based benzene is normally cheaper than oil based benzene.

Ukrainian Oil Based Benzene Market 2008 (kilo tons)

	2007	2006	Jan-Aug 08	Jan-Aug 07
Production Total	88	95.7	31.0	52.5
Exports	62	80.5	24.0	41.4
Imports	52	55.9	19.0	38.0
Consumption	79	71.2	27.0	50.9

Ukrainian Coal Based Benzene Market 2008 (kilo tons)

	2007	2006	Jan-Aug 08	Jan-Aug 07
Production Total	330.5	314.8	228.8	183.0
Exports	68.2	74.9	64.7	42.3
Consumption	262.3	238.5	164.1	141.5

The main outlets for benzene consumption in Ukraine include adipic acid, caprolactam and phenol. Consumption of oil based benzene was down 47% in the first eight months of 2008. At the same time, the consumption of coal based benzene has risen 16% to 164,100 tons. Consumption of oil based benzene has dropped largely in tandem with the decline in production, with Karpatneftekhim idled since June. Coal based benzene has risen 25% this year to 228,800 tons. Overall, there is a surplus in benzene with no need to import and sufficient to export. The three plants Avdeevsky Coke Chemical Plant, Azovstal and ArselorMittal at Krivoi Rog accounted for around 80% of benzene exports based on coal, with the Czech Republic and Poland being the main end-destinations.

Ukraine has imported 19,400 tons of oil benzene in the first eight months of 2008, used by Azot at Cherkassy in the production of caprolactam. The cost of imported benzene has risen 30% since the start of the year, reaching $1324 per ton DAF/FOB by August. Only Karpatneftekhim when producing has the capability to export, whilst Ukranafta sells only to the domestic market. Due to the stoppage at Karpatneftekhim, export volumes have dropped by 42% this year, totalling 24,000 tons to date.

Ukrainian market for phthalic anhydride

The Ukrainian market for phthalic anhydride totalled 2,600 tons in the first half of the year, which was 23-24% down against 2007. With both Ukrainian phthalic plants idle, imports were the only source of supply in this period. Imports have been affected to some extent by rises in prices, which the paint and varnish manufacturers cannot afford to pay, but the market has improved in the third quarter with the fall in orthoxylene prices. The major Ukrainian producer Krasitel at Rubezhnoye restarted production in August and is producing around 2,500 tons per month. However, the company 0plans to export all of its output so the dependency on imports will continue. The second Ukrainian phthalic plant, Avdeevsky Coke-Chemical Plant remains idle and there are no plans to restart this year.

PE pipes in Ukraine

The polyethylene pipe market has been growing quickly this year in Ukraine, with a variety of applications including drainage and sewage. For the first eight months of 2008, the market is estimated to have been 31,510 tons and showing a 17% increase over 2007. The effects of the financial crisis seem certain to reduce these growth rates, which is likely to increase competition for market share. Already, conditions are tight with around 70 small domestic companies operating in the market. The main producer is Rubezhnoye Pipe Plant, with 34% of the Ukrainian market. Despite the rapid rate of market growth, producers have been faced with high raw material costs and have found it difficult to pass these increases onto the end-

user. The availability of imports can always provide an alternative and this tends to restrict price rises. In the first eight months of 2008, imports accounted for 12% of Ukrainian consumption. Most of the demand is seasonal, with imports rising in the spring and summer months.

The main consumers of polyethylene pipes in Ukraine are construction companies, housing and communal services, etc. Applications in water pipes increased 40% in the first eight months of 2008, mostly of diameter 110-400 mm. The increase in water pipes has been due to the deterioration of older systems rather than due to new housing. Pipes for gas applications accounted for 50% of consumption in 2006, but have since fallen due a lack of investment in the sector.

Other Ukrainian news

Investments into trichlorosilane production have started at Zaporozhye Semiconductor Plant. Contracts for equipment have already been signed for equipment deliveries. However, there could be a conflict with Kremnimpolymer, the first producer of trichlorosilane in Ukraine.

In the period January-September, Stirol's turnover increased 49.7% over the same period last year reaching 4.156 billion hryvnia. In physical volumes, ammonia production rose 1.7% to 926,700 tons whilst polystyrene rose 18.4% to 30,116 tons. In the period January-August 2008, Ukraine produced 2.618 million tons of urea which was 4.3% up on 2007. Only Azot at Cherkassy recorded a decline this year, falling 16.4% to 423,100 tons. Odessa Priportniy Plant increased production by 4.6% to 505,300 tons, Azot at Severodonetsk rose 14.2% to 455,600 tons, Stirol at Gorlovka 5.9% to 593,000 tons and Dneproazot 16.8% to 505,300 tons.

Soda ash production in Ukraine rose 8.6% in 2008 to 655,100 tons in the period January-August 2008. Crimean Soda increased production by 4.2% to 499,000 tons, whilst Lisichansk Soda increased by 25.4% to 156,100 tons. Exports of soda ash from Ukraine rose 8.3% to 389,400 tons, of which the Crimean Soda plant exported 294,900 tons. Imports are small, with 24,600 tons imported in the first eight months of 2008 which came from Russia.

Belarus

SIBUR-Belarusneft

SIBUR-Holding and Belarusneft have agreed to co-operate on projects in the 2009-2011 period. Belarusneft was created in 2006 aimed at developing an entire network of oil product supply to Belarus and carry out full-scale reconstruction and modernization of oil production capacities. The Belarusneft state enterprise incorporated a number of affiliated enterprises, including Lidanefteproduct, Pukhivichinefteproduct and Seismotechnika. SIBUR-Holding has agreed to increase the supplies of SHFLU to Belarus, and for the next three years will supply around 600,000 tpa.

Belarussian Chemical Production (unit kilo tons)		
Fertilisers	*Jan-Sep 08*	*Jan-Sep 07*
Potassium	3944.7	3972.5
Nitrogen	576.5	580.6
Phosphate	131.3	129.0
Ammonia	773.0	793.1
Sulphuric Acid	650.5	592.4
Petrochemicals	*Jan-Sep 08*	*Jan-Sep 07*
Ethylene	110.8	104.7
Benzene	68.8	75.3
Caprolactam	96.1	90.1
Phthalic Anhydride	12.7	9.5
Polyethylene	105.5	102.5
PET	169.7	150.4

Mogilevkhimvolokno

Mogilevkhimvolokno has installed its own power plant with four reactors, each of 3.7 megawatts per ton capacity. Each reactor can produce 2.4 tons of steam and 108 tons of hot water per hour, to be used in the production process. The power plant is expected to reach full capacity by November or December this year and will provide Mogilevkhimvolokno with roughly 15-20% of its own energy. The new investment programme for Mogilevkhimvolokno, including the construction of a PTA plant, is set to take place in the special economic zone established in the Mogilev. The project will be advertised at the forthcoming Belarussian road show forum in London on 18 November.

Gomel soda ash

The Belarussian government is considering assistance from the Austrian company ATEC regarding the construction of a soda ash plant at Mozyr in the Gomel region. The project is still in the feasibility stage, but the main application

area intended for the soda ash is glass production. Belarus is currently dependent on soda ash imports which stand at around 120,000 tpa. The project was first mentioned in 2007, and includes a capacity of around 1 million tpa. If constructed, Mozyr Alkali Plant would be the first of this product area in Belarus; it would allow domestic demand to be met and also provide a large surplus for export.

Lakokraska-phthalic anhydride
The sole producer of phthalic anhydride in Belarus, Lakokraska, produced 8,930 tons in the first half of 2008 a 43% rise over 2007. Maintenance was undertaken at the plant in August. Exports of phthalic in the first half of 2008 amounted to 6,440 tons, or 72% of production, for a total of $6.460 million. The main destination for exports is Russia, which took 73% of the total in the first six months this year followed by Ukraine with 24%.

Central Asia

Uzbek chemical industry
ING has been appointed financial adviser to Uz-Kor Gas Chemical, a project company set up to develop, finance, build and operate a petrochemical complex in southern Uzbekistan. The jv was organised earlier this year between Uzbekneftegaz and the South Korean company KOGAS. Uzbekneftegaz increased polyethylene production at Shurtan by 11.9% in the first three quarters of 2008 over 2007.

The state chemical holding UzKimyoSanoat achieved a turnover of $301.7 million in the first half of 2008, showing a 9% increase over 2007. Higher prices accounted mostly for the increase, although production rises were noted for mineral fertilisers of 4% to 535,300 tons and phosphoric acid of 3% to 79,800 tons. Exports increased 61% in the first half of the year. Around 30 projects are planned for the chemical industry in Uzbekistan for the period 2007-2011, costing in the range of $280 million.

EBRD-PET preforms Uzbekistan
The EBRD is providing a $4.6 million loan to support the expansion of the Uzbek PET producer Tarleplast. Due to increasing demand for its products the company is planning to install two additional production lines and to procure the raw material for its production directly from suppliers. Tarleplast, a subsidiary of the private company Plasteks, is the market leader in the production and sales of PET products in Uzbekistan. The company is a fully integrated producer of PET packaging products, producing PET preforms, caps and polyethylene film. Tarleplast is located in Tashkent and working with equipment from leading Western manufacturers.

The increase in demand for PET packaging in Uzbekistan has been triggered by the strong growth in the non-alcoholic beverage sector in the country. Only 8% of packaging is glass. Though rising, the consumption of bottled water and soft drinks in Uzbekistan is far below international levels: While per capita consumption in Uzbekistan was 25 l in 2007, it was 60 l in Russia and 300 l in West Europe. The annual requirement of the Uzbek market for granulated PET is estimated currently in the range of 60-80,000 tons, which is expected to increase to 180-200,000 tons in the next three years.

Azerbaijan petrochemical project
The Azerbaijani government and Azerkhimya have developed a set of documents on a feasibility study to establish a new petrochemical complex, based at Sumgait. This involves assessments by Technip and consulting companies, with financial support from Societe Generale bank. In September, Azerkhimya signed a memorandum on mutual understanding with licensors ExxonMobil, Basell, KBR, Technip, etc, to construct a modern petrochemical complex in the country.

The project's aim will to enable Azerkhimya to reinforce its position in world markets and to cover internal demand in Azerbaijan. The new complex is envisaged to consist of 19 plants including 700,000 tpa of high and low pressure polyethylene, 130,000 tpa of polypropylene, 40,000 tpa of benzene and other petrochemical products. The production of these products will enable the country to cover all of its construction materials, plastic tubes, paints, varnish and rubber demands.

Although these projects seem too large for the domestic market and may not be well placed for export capability, Azerbaijan is keen to reduce the heavy emphasis on oil revenue from exports. The share of crude oil in country's overall export turnover for the period Jan-August 2008 totalled 93.84%, which was a

16-fold increase against the same period in 2007. Chemical output increased 50% in the first eight months of 2008, but this was after the industry ground to a halt last year and thus volumes remain small. For example, caustic soda production rose 67.6% to 15,300 tons, propylene 47.4% to 20,900 tons, polyethylene 53.3% to 37,800 tons, and isopropanol rose 55.2% to 14,400 tons.

In the first eight months of 2008, Azerbaijan exported 64.322 million tons of crude for a total of $35.379 billion. In the first eight months of 2008, SOCAR exported 12.902 million tons of oil (20.06% of the country's total), whilst Azerbaijan International Operating Company (AIOC) accounted for 51.420 million tons or 79.94% of the total.

Relevant Currencies

(Czech crown. Kc. $1= 20.290. €1 = 26.050): (Hungarian Forint. Ft. $1 = 222.57. €1 = 284.4): (Polish zloty. zl. $1+$3.1098 €1=3.9815): (Romanian New Lei. $1 = 2.8447 €1= 3.6383). (Ukrainian hryvnia. $1 = 5.7550. €1 = 7.3475): (Rus rouble. $1 = 26.992. €1= 34.585)

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