

EAST EUROPE & C. I. S CHEMNET

CIREC, 36 St Christopher's Mews, Wallington, Surrey SM6 8AP, United Kingdom.

Tel: 020 8669 5126 Fax 020 8669 5126: E-mail : andrew@cirec.net

Edited & Produced by Andrew Sparshott©

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Some of the main features in the August 2000 issue

- Chemopetrol achieved a profit of Kc 666.071 million (\$17.6 million) against losses of Kc306,891 \$8.1 million for the same period last year. The increase has been driven mainly by the large increase in production values for petrochemicals and derivatives. Kaucuk a.s., at Kralupy, also saw better performance with profits increasing from Kc 58.163 million in the first half of 1999 to Kc 263.830 million this year.
- Indications are that Unipetrol will together with Agrofert Holding to bid for control of AliaChem. This joint effort will challenge a rival bid for the core assets of the failed Chemapol Group from the state bank, Konsolidacni Banka. Potential buyers were given by the Chemapol trustee until July 31 to present their offers for AliaChem.
- Intervention by the Bulgarian Deputy Prime Minister led to renewed negotiations between LUKoil-Neftochim and Polymeri over the question of ethylene supply. Ethylene pipeline deliveries to Devnya were stopped by LUKoil-Neftochim on April 28 due to disagreements over pricing. The government was particularly concerned about this dispute and intervened between the two companies.
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- Oltchim has called a shareholders' meeting for August to approve an increase in share capital by 19.7 billion lei following a re-evaluation of assets. Oltchim currently has a share capital of 323.6 billion lei. The most important shareholders include the State Ownership Fund with 53.3%, local investment company SIF5 with 7.965% and various individuals and corporate institutions with a combined 38.7%. The company said last month it was planning to increase share capital by the equivalent of \$100 million, giving no details of how the capital rise would be carried out. The SOF has the intention to sell a majority interest in Oltchim to external stakeholders. Two western companies are reported to have placed bids.
- SIBUR-Neftekhim forecasts that its 2000 net profit will reach around 10 million roubles. The projection is based on a profit/loss breakdown analysis approved by the stockholders during this year's annual meeting. The chief priority this year is to establish constant levels of profitability from production. This year's major investment has been the maintenance work at the EP-300 unit and also support for upgrading ethylene oxide and ethylene glycol facilities.
- Nizhnekamskneftekhim is introducing a programme on energy consumption and reconstruction of energy equipment over a five year period. By introducing this programme Nizhnekamskneftekhim will be able to reduce energy consumption by 3 million gigacalories, more than 1.5 million tpa of fuel, and 100 kWh per hour of electricity. The programme would also enable Nizhnekamskneftekhim to operate its production facilities for a period up to 80 days without interruption.
- China imported from Russia 10,541 tons of LDPE in the first quarter this year, which was down quite noticeably against last year's volume of 30,562 tons. China imported 6,524 tons of HDPE in the first three months against 4,511 tons in the same period last year. The Chinese market can vary from quarter to quarter and the second quarter is expected to see more product being shipped. An encouraging sign is that Russian polyethylene output increased in the first quarter despite the reduction to China. Total production for HDPE and LDPE in Russia amounted to 252,100 tons against 208,322 tons in the same period in 1999. In the first quarter of 2000 Russia exported a total of 59,122 tons of LDPE and 36,298 tons of HDPE.
- According to Deputy Head of the Ukrainian State Property Fund (SPF), only one bidder has filed an official application for the Crimean Soda Plant. This outcome automatically annuls the tender's results. At the preliminary stage, as many as fourteen companies, including nine foreign, inquired to the SPF about the plant. Only General Chemicals Group Inc (USA) submitted its bid by the June 30 deadline, which made the sale invalid. The Fund's experts are to analyse the situation and decide how to proceed further.

CENTRAL EUROPE

Oil refining

Unipetrol and its subsidiaries all posted first half pre-tax profits, with the parent company showing profits of Kc 41.58 million against Kc 24.96 million in the same period last year. A 65% growth in pre-tax profit at Ceska Rafinerska resulted from higher margins in refining and fuels' production. Unipetrol stated that rising margins in the first half had helped significantly to improve the financial conditions of most of its subsidiaries. Slovnaft stated that it had returned to the black in the first half of this year, posting a net profit of SKK 188.4 million after a SKK 2.9 billion-loss in the first half of 1999.

LUKoil has decided that it will not proceed with its effort to buy a 71% stake in the Paramo refinery, mainly due to the terms of the tender in which the winner is obligated to repay Paramo's sizeable debts. In other refinery acquisitions LUKoil has shown similar reluctance to cover old debts which was certainly a factor in the company not competing for the Lisichansk refinery in Ukraine. The acquisition by LUKoil of Petrotel in Romania and Neftochim in Bulgaria have also not been without problems over debts. However, these refineries have more capacity than Paramo, which is rated at 1 million tpa, and they are placed probably better for LUKoil's refining interests.

Chemopetrol's Financial Performance Jan-Jun 2000

('000 Kc) (As of Jul 17 \$1 = Kc 37.9009, 1 euro = Kc 35.4355)

	30/06/00	30/06/99
Total Assets	24,738,567	22,847,337
Fixed assets	18,449,072	18,072,816
Intangible fixed assets	1,424,517	1,293,372
Tangible fixed assets	15,464,171	15,081,984
Financial investments	1,560,384	1,697,460
Current assets	6,009,574	4,449,822
Inventory	1,731,869	1,557,472
Long-term receivables	30,188	34,239
Short-term receivables	4,087,712	2,539,067
Financial assets	159,805	319,044
Total Liabilities	24,738,567	22,847,337
Equity	11,491,273	11,178,962
Registered capital	10,846,764	10,846,764
Registered capital	10,846,764	10,846,764
Capital funds	260,030	260,030
Profit (loss) of previous years	-336,049	344,315
Profit (loss) of current period	666,071	306,891
Not-own capital	12,731,824	11,379,167
Reserves	241,211	319,354
Long-term payables	4,880,017	386,580
Short-term payables	4,709,384	4,729,114
Bank loans	2,901,212	5,944,119
Long-term bank loans	816,396	2,190,712
Current bank loans	2,084,816	3,753,407
Other liabilities	515,470	289,208
Revenues from merchandise	95,029	28,087
Cost of goods sold	91,043	24,179
Sale margin	3,986	3,908
Production	12,097,685	7,158,267
Revenues from own products	11,892,904	7,398,117
Production consumption	10,296,141	6,039,169
Added value	1,805,530	1,123,006
Personnel expenses	492,514	571,638
Profit (loss) of current period	666,071	-306,891

Other potential investors for Paramo include Unipetrol and Canadian company Norex Petroleum. The Russian company Rosneft, which is a partner of the Czech company Cepam, is also interested. Rosneft has stated that invest \$50 million in upgrading the refinery. The stake par value is \$15 million.

MOL stated in July that it will make preparations for a spin-off of its gas business and will start talks with investors about the possible sale. This follows the appointment of a new chairman at the start of the month. The government capped this year's rise in natural gas prices, as other centrally-controlled prices, at 6% in an effort to curb inflation and avoid social tension. This has left MOL facing large-scale losses of up to Ft 110 billion this year alone, equal to the company's profits projected for the year. However, MOL has said that it could not be expected to bear the costs solely and some solution should be found. The details of a potential purchase will be decided by the State Privatisation and Holding Co. (APV Rt), which represents the state in MOL with a 25% plus one share

stake.

The government's hard line on price increase has deprived enough cash from MOL to put its competitive position in the region at risk. As a consequence of the gas price cap MOL will scale back its capital expenditures to Ft 110 billion this year and Ft 85 billion in 2001. The company had originally planned to make investments worth Ft 125 billion next year. Notwithstanding, 'the

company is keen to stress that the cutback in investment will not impact MOL's acquisition of Slovnaft'. The dispute has certainly impacted on the company's aggressive strategy which was being noted several months ago.

The latest word from the prolonged sale of the Gdansk Refinery is that Nafta Polska will seek a strategic investor (that would be able to buy up to a 75% stake) before the end of the year. This would be combined with new shares issued in the process of increasing stock capital. The government has stated that one bidder has met partial conditions. In 1999, the Gdansk Refinery made a net profit of PLN 114.7 million.

The Polish government has approved plans to sell 30% of Polski Koncern Naftowy (PKN) Orlen, which would reduce the state's share in PKN to 25%. This second public offering started during July. PKN Orlen, now approximately 72% privately held, saw 1.58 million, or 4%, of its shares sold off. Reports from the Polish stock exchange are that PKN Orlen will need a strategic investor, and there are even some rumours that LUKoil may be interested. At present, PKN's statutes do not allow one company to buy shares of PKN Orlen in order to take control. However, there is a possibility that if companies controlled by LUKoil buy a 10% stake, which is the maximum allowed amount, they may try to change the statutory regulations. As one source suggested if LUKoil were able to buy into PKN it could be able to influence the Polish market. In future, also, it could secure access to the EU markets.

Petrochemicals Chemopetrol achieved a profit of Kc 666.071 million (\$17.6 million) for the first half of 2000 against losses of Kc306.891 million (\$8.1 million) for the same period last year. The increase has been driven mainly by the large increase in production values for petrochemicals and derivatives. Kaucuk a.s., at Kralupy, also saw better performance with profits increasing from Kc 58.163 million in the first half of 1999 to Kc 263.830 million this year. Unipetrol said that Kaucuk beat its business plan by posting a 39% higher-than-forecast pre-tax profit due to a faster than expected rise in petrochemical margins combined with further cuts in overhead costs.

Kaucuk (Kralupy) Financial Performance Jan-Jun 2000

('000 Kc) (As of Jul 17 \$1 = Kc 37.9009, 1 euro = Kc 35.4355)

	30/06/00	30/06/99
Total Assets	10,820,412	10,619,588
Fixed assets	7,723,582	8,481,598
Intangible fixed assets	127,269	37,694
Tangible fixed assets	7,584,370	8,331,761
Financial investments	11,943	12,143
Current assets	2,857,976	1,900,968
Inventory	670,916	543,931
Long-term receivables	45,451	1,351
Short-term receivables	1,665,968	1,243,986
Financial assets	475,641	111,700
Total Liabilities	10,820,412	10,619,588
Equity	5,537,593	5,421,128
Registered capital	6,236,000	6,236,000
Registered capital	6,236,000	6,236,000
Profit (loss) of previous years	-962,229	-878,182
Profit (loss) of current period	263,830	58,163
Not-own capital	4,972,713	4,986,813
Reserves	117,607	77,293
Long-term payables	6,756	98,677
Short-term payables	1,017,183	597,201
Bank loans	3,831,167	4,213,642
Long-term bank loans	2,988,125	4,083,300
Current bank loans	843,042	130,342
Production	4,164,606	2,690,762
Revenues from own products	4,023,810	2,818,376
Change in inventory	140,796	127,614
Production consumption	3,023,745	2,072,348
Added value	1,140,792	618,466
Personnel expenses	216,557	265,477
Profit (loss) of current period	263,830	58,163

BorsodChem has been gradually increasing its shareholding ownership of TVK in recent weeks. TVK announced that on July 5, 2000 that 1,400,000 shares were acquired by BorsodChem Rt. Prior to the transaction BorsodChem had owned 339,000 TVK shares and thus the new registration increased BorsodChem's ownership to 7% of TVK. Later in the month, BorsodChem bought another 3.54 million shares in TVK, equating to another 14.3%, increasing its total holding to 21.3%. The sellers were international investment funds Croesus and Templeton, and investment bank Morgan Grenfell. The shares were worth Ft 12.7 billion at concurrent market prices.

It is expected that BorsodChem will eventually increase its shareholding to a minimum stake of 28.5%. The main aim of this purchase, according to the company, is to ensure a steady supply of raw materials. BorsodChem's position as an influential shareholder has culminated in the call for an extraordinary general meeting of TVK shareholders,

scheduled for August 29. The removal of directors and members of the supervisory board is on the agenda.

In the meantime, TVK has been progressing with the divestment of its non-core activities with the sale of a 50% stake in its subsidiary TiszaTextil Kft plastic processor unit. This could help to increase TVK's pre-tax profit by Ft 500 million for the third quarter. According to the strategic plan of the company, TVK needs to sell all its subsidiaries which are not closely related to petrochemicals. Although TVK was in discussions for the sale of the plastics' units in March Pannonplast decided not to proceed with the purchase, estimated to be worth Ft 15-20 billion. TVK subsequently decided to divide up the division into smaller units, and sell them separately. In May TVK sold its carbon black production unit at above the expected price which should help to boost second quarter profits.

Polyolefins

In the first half of this year TVK's ethylene output exceeded the forecast level and compensated for the loss in production caused by fire damage at the start of the year. As a result of increased cracker capacity TVK's HDPE production has been above target. TVK is expected to produce 180,000-190,000 tons of polypropylene this year following the start-up of the PP IV unit and will need to purchase around 45,000 tons of propylene to supplement cracker production. MOL Rt will supply TVK with 20,000 tons of propylene in 2000, and further supplies in 2001 under a two-year contract.

The next polypropylene expansion in Central Europe will take place in the Czech Republic, for which Chemopetrol has already signed a contract. Foster Wheeler Corporation announced earlier this year that its subsidiary Foster Wheeler Italiana, S.p.A. was awarded a contract for a new polypropylene plant to be built by at Litvinov. The contract, valued at approximately \$48 million, calls for Foster Wheeler Italiana to provide engineering, to supply equipment and

materials, and to construct the plant. The new production unit will produce polypropylene under BP/Amoco process license and will have a capacity of 250,000 tpa. It is expected to be in commercial operation in 2002. The contract for the project will be financed by a Buyer Export Credit guaranteed by SACE, the Italian state insurance agency, and by commercial loans.

Environmental/Chlorine

Spolchemie at Usti nad Labem recently sold a 60% stake in waste incinerating plant operator Spolio to Dekonta Kladno, a company involved in environmental clean-up activities. Spolchemie posted first half sales of Kc 1.6 billion, up Kc 200 million on 1999.

Spolana at Neratovice encountered a chlorine leak on July 21, with seven firemen needing to be taken to hospital. The chlorine cloud started to escape slightly before 20.00 hours on July 21, either from a faulty pipe or following the rupture of a pipe. The chlorine continued to leak until later next day as the pipe was difficult to tackle. Residents in nearby villages were advised to stay indoors during the day.

The concentration of chlorine measured in the affected villages was far below danger level, although some breathing problems were reported. No production problems have been reported yet but the incident has evoked reminders of previous accidents at the site.

Plastics processing

TVK Rt stated that on July 7 that it had sold its 50% stake in Tisza Textil to the two co-owners for Ft 895 million. The two co-owners, Ibiscus Trading Co. of Cyprus and TTEX Invest Asset Management and Trade Kft, will share the 50% stake equally. Tisza Textil has a registered capital of Ft 792.6 million forints, and for 1999 posted an after-tax profit of Ft 199.4 million.

Also in Hungary Pannonplast's first half-year sales revenues totalled Ft 11.6 billion, 32.5% higher than in 1999. In contrast to last year, the company witnessed a strong demand for infrastructure and plastic foam products. Sales to the domestic Hungarian market for consumer packaging have been affected by competition. Substantial increases in raw material prices meant that Pannonplast's gross margin ratio was 3% lower than last year.

Company news

The Hungarian State Privatisation and Holding Co. (APV Rt) is offering an 85% stake, with nominal value of Ft 3.956 billion, of Nitrokemia 2000 Rt. The remaining 15% in the company will be sold to employees at a preferential price. The full purchase price has to be paid in cash within 30 days of signing the contract. The deadline for submission of bids is September 20. The APV Rt expects bidders to make a declaration on environment-related commitments. The former Nitrokemia into two companies, Nitrokemia Rt and Nitrokemia 2000 Rt, in 1997.

Indications are that Unipetrol will jointly with Agrofert Holding to bid for control of AliaChem. This joint effort will challenge a rival bid for the core assets of the failed Chemapol Group from the state bank, Konsolidacni Banka. Potential buyers were given by the Chemapol trustee until July 31 to present their offers for AliaChem. Chemapol subsidiary C.H.Chem is a 49.25% shareholder in AliaChem, which is being offered in a non-public tender being organised by Atlantik Corporate Finance. Konsolidacni confirmed in July that the bank was getting ready to submit its offer for AliaChem as soon as it received the Cabinet's go-ahead.

Polish Chemical Output (unit kilo tons)

Product	Jan-May 00	Jan-May 99
LDPE	52.3	70.3
Polypropylene	48.3	48.1
PVC	114.8	111.5
Caustic Soda	168.1	148.8
Pesticides	18.1	17.1
Detergents	12.2	116.7
Nitro Fertilisers	676.0	662.0
Phosph Fertilisers	227.2	248.3
Synthetic Fibres	43.0	31.7

AliaChem has been struggling since its establishment in 1998, when it was formed from four chemical companies: Synthesia, Fatra Napajedla, Technoplast and Moravske chemicke zavody (MCHZ). In 1998, the company posted a loss of Kc 1.86 billion on revenues of Kc 11.4 billion, which improved in 1999 to Kc 694 million on Kc 9.5 billion in turnover according to an audit from Ernst & Young. Since its launch, the

company has been fighting off bankruptcy threats and eventually was included in the government's industrial revitalisation programme, being overseen by Konsolidacni's daughter company, the Revitalisation Agency and managed by consultants from Lazard Freres and Latona Associates.

Konsolidacni's purchase would grant it more control over AliaChem, at the expense of Revitalisation Agency. At the beginning of this year BorsodChem took over MCHZ through a joint venture in which the Hungarians have a 97.5% stake. Agrofert showed interest in MCHZ, particularly as it is a major benzene customer of its subsidiary Deza at Valasske Mezirici. Deza seems to have encouraged Agrofert to bid for AliaChem. Agrofert and Unipetrol will use its jointly owned company, Agrobohemia, for the acquisition. Agrobohemia's share capital could also be increased from its current Kc 101 million by an injection from Deza, and possibly Unipetrol. The largest Czech fertiliser producer Lovochemie belongs to Agrobohemia. In 1999 Lovochemie posted a loss of Kc 54 million on sales of Kc 1.7 billion, down Kc 900 million against 1999. Weak results were attributed to the sale of its silk producing division, and a troubled European fertiliser market. Agrofert Group's revenues reached Kc 17.4 billion on a profit of Kc 1 billion last year, while Deza reported a net profit of Kc 52 million on Kc3.15 billion in sales. Unipetrol posted a Kc 1.9 billion net profit last year on revenues of Kc 51.8 billion.

Hydro Czech Republic, the Czech branch of Norsk Hydro, has sold its majority stakes in Hydro ZZN Pelhrimov and Hydro Znojmo to Agrofert. The main reason behind the sale was the need to restructure the company's Agro division. Agrofert is the most important Czech wholesale distributor, importer and exporter of industrial fertilisers. The Agrofert Group annually handles approximately 1.8 million tons of industrial fertilisers. Another subsidiary of Agrofert Lovochemie posted a 1999 loss of Kc 54 million on sales of Kc 1.7 billion, down Kc 900 million against 1999. The Czech Republic's largest fertiliser producer attributes the results to the sale of its silk producing division, and a troubled European fertiliser market.

Central Europe-currencies July 17th 2000			
Country	Currency	\$1=	EURO =
Czech Republic	Koruna	37.9009	35.4355
Hungary	Forint	277.824	259.732
Poland	Zloty	4.3236	4.0477
Slovakia	Koruna	45.6097	42.6825

Czech phosphate producer Fosfa is looking for a strategic partner to help it return to annual sales levels of Kc 800 million. The largest domestic phosphate producer, which says it lost markets due to its inability to compete with foreign companies, expects 2000 sales to rise 60% this

year to around Kc 500 million. The major shareholder in Fosfa is the joint-stock company F-INVEST which was founded in 1993. F-INVEST is a trade company with import and export activities. It purchases the entire range of raw materials for the production of phosphoric acid and phosphates in Fosfa and takes responsibility for selling the products.

SOUTH EAST EUROPE

Oil refining/petrochemicals

In Serbia, the reconstruction of the Pancevo oil refinery is expected to be completed in the next few weeks. The Nova Plama refinery at Pleven in Bulgaria has stated that it cannot restart its plant until the Bulgarian government restores import duties temporarily on oil products and puts an end to illegal imports. Import duties on oil products were abolished with CEFTA countries in January, and are due to be completely abolished by January 2002 to liberalise trade with the EU. Illegal imports are estimated currently to account for 40% of the domestic oil market.

LUKoil-Neftochim and Nova-Plama have prepared a joint proposal for halting of the illegal import of fuels into the country. According to the Management of the two companies a control over the activity of all the importers must be introduced, the excises of the ready production must be changed; the import with trucks must be forbidden and the border control must be strengthened through an independent organisation.

Romanian Chemical Production (unit-kilo tons)			
Product	1999	1998	1997
Oil Processing	10,041	12,393	12,394
Soda Ash	431	483	548
Caustic Soda	296	305	322
Synthetic Rubber	16	22	74
Ethylene	167	153	147
Propylene	124	137	150
Pesticides	3	5	8
PVC	132	123	132
Polyethylene	92	81	70
Varnishes and Paints		30	32
Detergents	60	59	31
Synthetic Fibres	28	22	45

The future for the Rafo refinery in Romania is not looking favourable with SNP Petrom rejecting any prospect of a take-over. SNP already owns two refineries and integrated petrochemical facilities at Ploiesti and Pitesti and is not seeking new capacity. The Rafo refinery recently lost a contract for the processing of 200,000 tons of crude oil with the UK company Claymore, which withdrew as soon as it found out that the SOF

received no offer for Rafo's privatisation. The SOF is organising on August 25 for another auction for the sale of Rafo shares.

PVC Intervention by the Bulgarian Deputy Prime Minister led to renewed negotiations between LUKoil-Neftochim and Polymeri over the question of ethylene supply. Ethylene pipeline deliveries to Devnya were stopped by LUKoil-Neftochim on April 28 due to disagreements over pricing. The government was particularly concerned about this dispute and intervened between the two companies. It is now believed that ethylene deliveries have been resumed to Devnya enabling a restart of the EDC facilities. Following the stoppage of April 28 Polymeri undertook a maintenance turnaround on May 20 which means that the plant should be capable to run uninterrupted for the next few months. Regarding ownership of Polymeri, a minority shareholder Bulgarian Holding has increased its stake to 27% after buying the state's 9% stake. Bulgarian Holding is the former Bulgarian-Dutch privatisation fund.

In Romania, Oltchim is known to be planning to expand its PVC capacity from the current level of 180,000 tpa, although no figures for the expansion have been given. In theory, here is a small excess of VCM capacity (which is around 20,000 tpa) and it would seem probable that the company will debottleneck up to this level. The main problem for Oltchim is ethylene supply on which it depends on deliveries from the Arpechim cracker by pipeline. Occasionally shortages occur which has forced Oltchim into the open market for VCM purchases.

Croatian Chemical Output 1999 (unit-tons)		
Product	Jan-May 00	Jan-May 99
Ammonia	177,033	184,065
Nitric Acid	145,172	144,168
Other Inorganic Acids	137,391	116,609
VCM	48,414	11,787
Carbon Black	7,829	7,060
Plant Protection Agents	3,359	3,300
Urea	161,433	158,466
Compound Fertilisers	258,081	255,440
Polyethylene	4,355	73,042
Synthetic Resins	20,192	39,268
Detergents	17,988	17,358
Printing Inks	361	290
Other coating materials	10,375	9,634

Oltchim has called a shareholders' meeting for August to approve an increase in share capital following a re-evaluation of assets. Oltchim currently has a share capital of 323.6 billion lei. The most important shareholders include the State Ownership Fund with 53.3%, local investment company SIF5 with 7.965% and various individuals and corporate institutions with a combined 38.7%. The company said last month it was planning to increase share capital by the equivalent of \$100 million, giving no details of how the

capital rise would be carried out. The SOF intends to sell a majority interest in Oltchim to external stakeholders. Two western companies are reported to have placed bids.

As part of the privatisation process Oltchim shareholders in July authorised the company's management to raise a \$60 million loan to boost share capital. The loan will be used principally for working capital. Oltchim reported a net profit of 158.4 billion lei in the first five months of this year.

Fertilisers The Bulgarian government has agreed to sell a 51% stake in the fertiliser producer Neochim at Dimitrovgrad to Neochim Invest which is controlled by Euro Fert Ltd and Kerimax Chemicals of Lebanon. Neochim Invest has agreed to pay \$100,000 for the stake and has also agreed to settle the debts of 29.8 million leva, in addition to investing \$5.6 million over the next five years.

Chimco at Vratsa has increased its utilisation of urea capacity to 50% with the introduction of its second train. The increase in production is to meet an order placed by Agropolychim at Devnya, and also due to additional orders from the regional market. Chimco has stated that it expects to regain some of its old market share in China from September onwards.

Agropolychim in July signed a contract with the Jordanian National Phosphate Company for the export of 115,000 tons of phosphates. The deliveries via through Varna Port should be realised by the end of this year. Also, by December 40,000 tons of ammonium nitrate will be sold to South America and the EU at prices of \$80-82 per ton.

The Romanian Ministry of Environment, Forestry and Waters (MAPPM) has ordered to partially halt the activity of the fertiliser plant Combinatul Chimic at Turnu Magurele from July 1 due to repeated problems with air pollution caused by ammonia leaks. Earlier this year a leak from the plant at Turnu Magurele actually reached the Bulgarian town of Nikopol. The level of ammonia measured in the cloud was 4.57 times higher than the limit and the concentration of hydrogen sulphide was twice more than normal. The situation has shown no improvement.

According to the MAPPM, the latest measurements conducted in July showed ammonia concentrations of 0.51% mg/cubic metre, or 1.8 times higher than the admitted limit. A permanent closure of the plant would cause serious social problems, while its stopping and restarting would cost around 5 billion lei. Thus, a decision was taken to stop the main pollution sources from the plant, but the whole plant has been spared for the time being. A thorough upgrade of the plant would cost some \$25 million. The MAPPM state secretary also warned that the EU might introduce sanctions on Romania's export of fertilisers if no appropriate measures are being taken to improve the situation.

Industrial gases Air Liquide recently opened its first oxygen production unit in Bulgaria at a cost of \$4.7 million. The plant is a 150 ton/day unit located in Pirdop, near Sofia. The main customer for the plant is Union Minière's copper plant. This new plant, developed by Air Liquide's Engineering division, can produce oxygen at exactly the level of purity required by the customer's process, which ensures optimum cost-effectiveness. This new plant supplements other oxygen facilities at Pirdop, whose operation was outsourced to Air Liquide Bulgaria in November 1999. Built to meet Union Minière's increasing requirements under a long-term contract, it required a total investment of 5 million Euros.

Fibres The State Ownership Fund (SOF) received no bid for the privatisation of the fibre producer Polirom Roman, with the deadline for submitting bids on July 4. Even though it bought the task book, the Romanian American Company Nicoren Group did not proceed with the 70% purchase due to the size of the Polirom's debts.

End-use products Romanian paint manufacturer Policolor reported losses of 14.6 billion lei for the first quarter compared to losses of 12 billion lei in the same period in 1999. The 14% drop in sales this year was attributed to the fall in paint consumption in the automotive industry.

South East Europe-currencies July 17th 2000

Country	Currency	\$1=	EURO =
Bulgaria	Lev	2.0490	1.9185
Croatia	Kunar	8.0909	7.5757
Macedonia	Dinar	59.850	56.016
Romania	Lei	21,084.7	19,731.7
Slovenia	Tolar	214.28	200.52
Yugoslavia	New Dinar	12.1789	11.4122

Henkel Romania reported a 31 million euro turnover last year. Employing more than 200 people, the company holds a 55% market share of the Romanian detergent sector with its Pur brand washing-up liquid. Henkel's Bautechnik division opened at the end of July a new construction adhesives unit on the outskirts of Bucharest. The plant was completed in seven months after an investment of \$3 million.

Production will consist of the powder Ceresit used as construction adhesives for ceramic plates, with a capacity of 30,000 tpa. Henkel launched the Ceresit range of products on the Romanian

building materials market in early 1997. They include fitting systems for ceramic plates, polishing plaster coats and plasters and hydro-insulating and repairing systems.

COMMONWEALTH OF INDEPENDENT STATES

Russia

In the period January-May this year the Russian chemical industry increased physical output by 19.7% against the corresponding period in 2000. Most products have seen an increase this year due to the combined effect of higher domestic consumption and good export opportunities. Ammonia production increased notably in the first quarter, being 33% higher than in the same period last year. Production of synthetic resins and plastics increased by 22.2%, with polystyrene seeing an increase of 47%. Even so, one should note that polystyrene production was only 20,900 tons for the first three months. The petrochemical sector saw an average increase of 30.5% with methanol up 47.0% on January-May 1999, styrene 44.5%, benzene 35.4%, phenol 28.3%, and ethylene 23.7%. These increases, however, tell us little about profit margins and efficiency.

Despite last year's improved financial performance the majority of companies in the Russian chemical industry have decided not to pay dividends to shareholders after the final figures for 1999 have been published. The wide ranging view is that profits recorded in 1999 should go towards repaying some of the outstanding debts faced by most companies, or towards investment in production.

CIS- currencies July 17th 2000			
Country	Currency	\$1=	EURO
=			
Azerbaijan	Manat	4379	4100.96
Belarus	Rouble	975,000	918.925
Kazakhstan	Tenge	142.675	133.715
Russia	Rouble	27.8550	26.1259
Ukraine	Hryvnia	5.4338	5.0972
Uzbekistan	Sum	775.0	728.300

Germany is to provide a \$4 million to assist Russia in the further destruction of its chemical weapons' stockpile, the Russian government announced on July 20. Included in the package will be a system of processing waste from chemical weapons which will be used to clean up polluted waters in the Saratov region. Production of chemical weapons has been stopped in Russia, but there is still a stockpile of

40,000 tons (viewed as the largest declared arsenal in the world) that the country needs to destroy.

Under a convention outlawing chemical weapons which Moscow signed in 1997, Russia should have destroyed 1% of its arsenal by April this year. However, Moscow has delayed the timetable for the destruction of its weapons, citing insufficient finance for the programme, and in 1998, it appealed for international assistance in meeting its commitments. Germany has already provided some assistance, along with Canada, the European Union, Finland, Italy, the Netherlands, Norway, Sweden and the USA.

Trade with China has this year been similar to volumes done in 1999. On the basis of the first quarter LDPE shipments between Russia and China were down but are expected to recover in the second quarter. More assistance to promoting trade links may result from the new railway line connecting key parts of Russia and China. This line was officially opened in July between Russia's Far East Primorye region and the Chinese province of Jilin after eight years of construction and delays. The line has the capacity to carry up to 3 million tpa of freight. The line is only 40 km long, but it is another important step in developing trade relations between the two countries.

Chinese Imports from Russia (unit-tons)		
<i>Product</i>	<i>Q1 2000</i>	<i>Q1 1999</i>
HDPE	6,524	4,511
LDPE	10,541	30,562
n-butanol	16,993	19,029
iso-butanols	8,962	8,823
PVC	54,343	43,369
Phth Anhydride	7,434	674
2-EH	2,502	999
PP	-	3,014
Caprolactam	17,854	17,764

The rail link, starting near the small Russian cities of Khasan and Posyet, is the second Chinese-Russian railway line crossing the countries' Far Eastern border. The other line is about 100 km north on the border with the Chinese province of Heilongjiang. The new line should help the Jilin province to become a bridge for Russian companies to reach the rest of China and also the Korean markets.

The representatives of the oil/gas companies, YUKOS and LUKoil, and OAO Gazprom have announced a

foundation of the Caspian Oil Company (KNK) and signed the charter documents of the new company on July 25. The Caspian Oil Company has been founded for prospecting, exploration and development of oil and gas reserves in the Caspian region, mainly the Caspian offshore. Each of the three founders will own one third of the Caspian Oil Company's equity. The KNK's headquarters will be based in Astrakhan.

Oil refining Whilst taking advantage of high world oil prices Russian oil companies are emphasising the need for increasing domestic refining levels in order to meet the burgeoning demand for gasoline. Russian oil exports totalled 62.018 million tons in the first half of 2000, exceeding target by 14%. In 1999, Russia exported a total of 134.543 million tons compared to 137.236 million tons in 1998. The crucial difference between 1999 and 1998 was the oil price, with 1999 revenues totalling \$14.089 billion against \$10.255 billion in 1998. Revenues from crude sales this year are expected to surpass 1999 levels considerably, even if world prices fell back.

The Russian antimonopoly Ministry has given a green light to YUKOS for buyout of a 100% stake in ONAKO which includes the Orsknefteorgsintez refinery in the south Urals. Recently plans were approved for the merger of ONAKO and Orsknefteorgsintez into a single company. Orsknefteorgsintez has good connections with the Interkhimprom holding company through Solvalub for the sale of isopropanol. YUKOS is waiting for official disclosure of the tender terms before making a final decision on its participation in the privatisation of a 85% stake in ONAKO. LUKoil has also shown interest.

Orsknefteorgsintez processed 2.148 million tons of crude in the first half of 2000, 11.09% more than the same period last year. Other refinery performance includes Kirishinefteorgsintez which processed 8.452 million tons of crude in the first six months this year, 1.3% down on the same period last year. Slavneft's units at Yaroslavl refined 8.4 million tons of oil in the first half of 2000, up by 12.8% against 1999. TNK has bought into Slavneft, now controlling 40% of the Yaroslavlnefteorgsintez refinery which it wishes to upgrade.

YUKOS supplied 10.9 million tons of crude to its own refineries in the first six months of 2000, down from 11.2 million tons in the same period last year. Refineries belonging to YUKOS include Achinsk, Syzran, Kuibyshev and Novokuibyshevsk. Outside of its own refineries deliveries to other plants such as at Angarsk increased by 1.4 million tons from 11.2 million tons to 12.6 million tons. YUKOS undertakes gasoline processing on a tolling basis at Angarsk in agreement with the appointment of new management and owners Rinco. Angarsknefteorgsintez has now increased its utilisation level to in excess of 40%. The Russian government has approved a decision of the commission on restructuring credit debts of Angarsknefteorgsintez to the Federal budget. The company was given a right on restructuring debts to the Federal budget over a period of six years.

BP Amoco, along with YUKOS Oil Co. and Tyumen Oil Company (TNK), may acquire from Rosinvestneft an 8.5% stake in Rusia Petroleum, a Russian exploration company that holds a license to the Kovytko in eastern Siberia. Angarsknefteorgsintez, now owned by Rosinvestneft, holds the 8.5% stake.

TNK has signed an agreement with W R Grace & Co to create a joint venture for the production of catalysts for the oil refining and petrochemical industries. TNK started catalyst production at the Ryazan refinery in April 1999 under the company name ZAO "Promkataliz", and produced 700 tons last year. The agreement with W R Grace will allow an upgrade of the existing production technology.

Alliance Group, the Moscow-based management consultancy, has acquired the Khabarovsk Refinery and five retail units in Russia's Far East from the Rosinvestneft group of companies. The subsidiaries earlier belonged to SIDANKO. The Khabarovsk refinery has recently returned from a full scale maintenance programme lasting from May 23 to July 19. Alliance supplied 270,000 tons of crude to the refinery in July. The refinery plans to refine 1.41 million tons of crude oil in the second half of 2000 against 1.2 million tons in the first half of the year.

Refinery modernisation

YUKOS intends to upgrade the Syzran refinery (SNPZ) in line with the European standards. The key target is to replace obsolete primary oil refining equipment for one modern complex. The new complex will be assembled by September and put into operation by in April 2001. This will allow the refinery to improve quality of petrol and diesel oil and to reduce environment spoiling. \$10.5 million are supposed to be invested in SNPZ this year.

Engineering company Sulzer has won a tender with Sibneft-ONPZ for an upgrade of the vacuum column of AXT-10 setting at the Omsk refinery. The upgrade will be launched in 2001 and allow the refinery to considerably improve quality of raw materials for motor oil production. Sibneft will finance the project. Other companies bidding for the tender included Koch-Glitsch and Norton.

Also at Omsk Technip has signed a \$6 million contract with OAO "Sibneft-ONPZ" for the installation of new sulphuric alkylation plant to the value of \$5.6 million that will enable the production of higher quality gasoline. The new equipment will be on-stream by 2001.

On July 3, Pemneftepererabotka opened a new unit for removing mercaptans from light hydrocarbons. This will allow the plant to produce LPGs to European standards, increasing export potential, whilst also reducing the negative effects on the atmosphere. A by-product of the new unit will be disulphides used in the petrochemical industry. At present, disulphites are largely imported into Russia and so the output at Perm will replace some of these product flows, probably at much cheaper prices. As of June 1, the shareholder composition of ZAO "Pemneftepererabotka" was broken down into ZAO "LUKoil-Perm" 50%, AO "Perm GPZ" 35%, and OOO "Liquid-Gas" 15%.

Petrochemicals Gazprom looks set to be buying a controlling stake in SIBUR in the near future, thus formalising the company's ownership of SIBUR's nine gas refineries and various chemical interests such as the 54% stake in Salavatnefteorgsintez, SIBUR-Neftekhim, etc. In 1999 SIBUR recorded a pre-tax profit of 464.9 million roubles. Gazprom currently controls 38% of SIBUR and wants to increase this to at least 51%. The process is complicated and the outcome should be known soon.

Gazprom has been issuing notices of its intentions in the chemical industry, stating that by 2010 it will be producing 300,000 tpa of polyethylene. Other company plans include reconstruction of its compressor stations. Putting into operation new gas pipelines will allow Gazprom to increase export by around 75 billion cubic metres per annum. Other goals of Gazprom involve the production of fertilisers. Recently, Gazprom signed an agreement with Krasnodar region, providing for allocating fertilisers to the value of 570 million roubles to the local agrobusiness.

Gazprom subsidiary Mezhregiongaz is currently completing preparations for the purchase of the controlling interest in the Kropotkinsky Chemical Plant in the Krasnodar region. The gas company pledged to invest 160 million roubles in plant development.

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

Product	Jan-Jun 2000	Jan-Jun 1999
Petrochemicals	228,200	119,200
<i>Inc</i>		
*Ethylene	64,514	55,140
MEG	54,800	46,050
DEG	5,700	4,238
Propylene	33,600	23,333
Benzene	18,800	9,495
<i>*estimate</i>		

plant reopened in early July and the Kstovo plant in the second half of the month. The maintenance at Kstovo went on longer than expected, starting on May 28 and originally was expected to last until about the middle of June.

In the first quarter SIBUR-Neftekhim produced 44,500 tons of ethylene, and whilst output was affected by the outage, the second quarter was still up sharply on last year. For the period January-June 2000 SIBUR-Neftekhim produced 228,200 tons of petrochemicals, 109,000 tons more than in the same period last year. The second quarter this year yielded 82,500 tons after producing 145,700 tons in the first quarter. The most important commodity for SIBUR-Neftekhim is MEG at Dzerzhinsk, and production in the first half of the year totalled 54,800 tons of which 85% was exported. Additional glycol production was helped by the increase of 88%, or 15,300 tons, ethylene oxide production.

Russian Chemical Production (unit-kilo tons)

Product	Q1 00	Q2 99
Ammonia	2,859.8	2,454.2
Caustic Soda	302.3	235.5
Soda Ash	518.9	447.7
Methanol	438.8	266.4
Acetic Acid	30.9	16.7
Ethylene	510.0	390.5
Propylene	222.3	191.6
Benzene	239.6	173.7
Styrene	84.8	54.7
Phenol	39.7	29.9
Acetone	28.1	17.3
Phth Anhydride	19.4	11.8
Butadiene	72.7	54.0
Isoprene	76.7	62.6
Synthetic Rubber	207.5	172.2
Polyethylene	252.1	208.3
Polypropylene	57.9	50.2
Polystyrene	20.9	14.2
PVC	116.6	97.9
Caprolactam	68.9	47.5
Aniline	8.5	9.6
Plasticizers	21.5	10.4
Carbon Black	96.8	77.3
Total kilo tons	6,294.7	5,212.2

important of Nizhnekamskneftekhim's plans is an upgrade of its cracker which is viewed as necessary to support increasing domestic demand for ethylene monomer and the company's own captive requirements for ethylbenzene, ethylene oxide, alpha olefins, etc.

One agreement for the expansion has already been made with Technip and Barings Bank, but finance for the project could not be guaranteed. In 1999, Nizhnekamskneftekhim produced 31% of Russian ethylene production. In 1999, the production value of NKNKH rose by 13.1% in comparison to 1998. A profit of 2,819 million roubles was recorded in profits for 1999.

Nizhnekamskneftekhim is introducing a programme on energy consumption and reconstruction of energy equipment over a five year period. By introducing this programme Nizhnekamskneftekhim

As a measure to try and increase the presence of SIBUR in the chemical industry a new holding company was formed in July, to be based at Perm. The new company is called Siburkhiprom. SIBUR will own a 51 stake in the holding, and the Perm gas refinery a 49% stake.

In July SIBUR-Neftekhim completed a planned overhaul of its production facilities at the Kstovo petrochemical plant and the Dzerzhinsk ethylene oxide and ethylene glycol plants. The Dzerzhinsk

SIBUR-Neftekhim is owned by the two large stockholders, OAO "SIBUR" (52%) and OAO "Neftekhim" (48%). As stated above, SIBUR is in the throes of becoming a fully transparent Gazprom subsidiary whilst Neftekhim is a joint venture formed in 1997 between NORSL and Kaprolaktam. SIBUR-Neftekhim's authorised capital accounts for 2,300,033,880 roubles.

SIBUR-Neftekhim forecasts that its 2000 net profit will reach around 10 million roubles. The projection is based on a profit/loss breakdown analysis approved by the stockholders during this year's annual meeting. The chief priority this year is to establish constant levels of profitability from production. This year's major investment has been the maintenance work at the EP-300 unit and also support for upgrading ethylene oxide and ethylene glycol facilities.

At the end of June Nizhnekamskneftekhim approved the composition of the Executive Board and the company's plans for 2000-2001. One of the most

estimates that it will be able to reduce energy consumption by around 3 million gigacalories, more than 1.5 million tpa of fuel, and 100 kWh per hour of electricity. The programme would also enable Nizhnekamskneftekhim to operate its production facilities for a period up to 80 days without interruption. The programme envisages construction of its own boiler which would produce cheaper energy than from purchased local sources. Nizhnekamskneftekhim is looking at more energy efficient methods of petrochemical production. New isoprene technology, for instance, could result in annual energy savings of up to 160 million roubles.

Tomsk Petrochemical Combine

A new joint stock company was established in July for the Tomsk Petrochemical Combine (TNKhK), the principal purpose of which was to attract investors. Among the founders of the new company are the company itself TNKhK, and the Moscow company Virel. TNKhK owns a 80% stake in the joint stock company, with the founding capital being established at 120 million roubles. As part of the restructuring programme TNKhK and Virel created a new division OOO "Tomskpolymer". This may provide a mechanism for protecting profitability and taxes in the olefin and polyolefin division. The Alliance Group is noted as having some involvement in the creation of the new division. There is a prospect that TNKhK could eventually be separated into two companies, methanol and olefins. Over the past few months the fight for the TNKhK combine has been intense between the Alliance Group and Gazprom subsidiary Vostokgazprom. The Tomsk regional administration has favoured Vostokgazprom as the sole owner, although Alliance has been more forthcoming with funds for bills, wages and for feedstock purchases.

In fact, Alliance's financial backing allowed a restart of TNKhK's EP-300 plant at the end of January this year,, which had been down due to a lack of finance. Raw materials for the EP-300 were supplied by SIBUR on the Alliance Group's guarantees. Those volumes were sufficient to let the unit break even and there were hopes the EP-300 could come up to its full capacity in March. However, continuing delays in deciding which group should control the company has meant that the cracker is still running off and on.

Debts of TNKhK have been under consideration during July with the Tomsk regional court assessing a lawsuit filed by Surgutneftegaz due to non-paid bills. The lack of agreement between the two sides is hindering raw material deliveries. Furthermore, the local energy company Tomskenergo is trying to recover 136 million roubles from TNKhK. Despite the company's debt problem TNKhK somehow recorded profits of around 140 million roubles for the first half of this year, indicating some signs of improvement.

Vostokgazprom has said that it is ready to buy Siberian Chemical's stake in TNKhK, but it also has other goals such as supplying Siberian Chemical with 1.6 billion cubic metres over ten years. Vostokgazprom's offer involves only the methanol plant, which is a separate limited liability company with 50.01% indirectly controlled by Vostokgazprom. For the methanol division to work at full capacity, around 1.2 billion cubic metres of gas a year is required. Last year gas was supplied to the methanol plant on condition that the supplier received half of the plant's products as payment. Vostokgazprom now wants 65% instead of the usual 45 to 55% the feedstock supplier usually receives. Last year's results showed that 50-50 sharing of the methanol facility's products did not allow TNKhK to break even.

Alliance has targeted the olefin division for control, negotiating feedstock supplies. In theory, Vostokgazprom could use the condensate it produces at the Myldzhinskoye field as feedstock for TNKhK's plastics' production. However, in order to be able to supply it to Tomsk, a 640km pipeline would need to be laid. The Vostochnaya Oil Company's Luginetskoye field could also be linked with the pipeline after a gas compressor station becomes operational. Such a pipeline would cost around \$250 million. The capital costs of putting Myldzhinskoye on production are estimated at \$390 million.

Vostokgazprom's demand for 65% of TNKhK's methanol is based on the need to invest in pipeline connections, etc. Investment in TNKhK is not regarded as a priority by Vostokgazprom. Gas producers are ready to process gas in Tomsk on commission terms but they would like to keep the lion's share of TNKhK's revenues for themselves. It is particularly easy to do this while

bankruptcy proceedings continue at TNKhK. In its current financial state the company is in no position to argue.

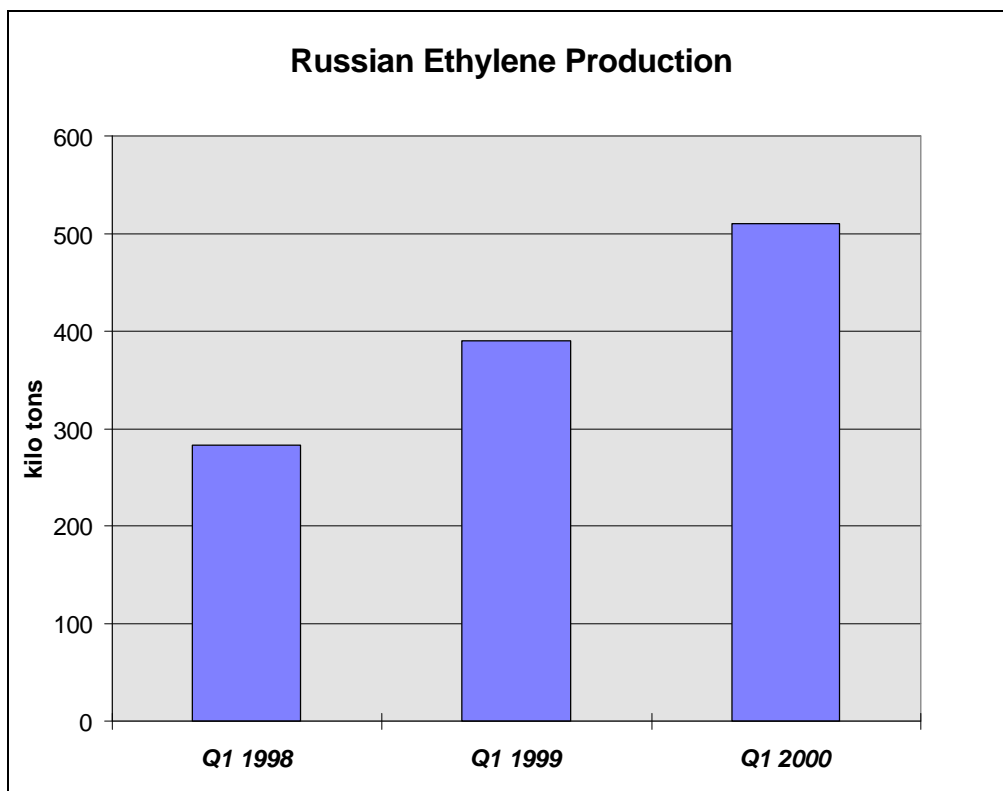
Alliance has already registered a subsidiary in Tomsk to work with TNKhK. In late July Alliance was active in trying to come to an arrangement with the local authorities and energy company over the debts of TNKhK. According to the Alliance Group's president, investment in TNKhK may allow Alliance Group get stronger by acquiring new production assets. This is in line with the strategic goal set for Alliance Group's managers: creating a multi-company targeted primarily at the Russian markets and those in other CIS member countries. The Alliance Group was formed in 1998 with the participation of fifteen Russian regions, the Izhmash company and St. Petersburg's Kirovsky Works. Its sphere of strategic interests includes oil, coal and power production, petroleum products and petrochemicals.

Ethylene Ethylene output has continued to increase in Russia this year raising questions over when Russian capacity will start to approach its "production ceiling". At current rates of improvement in production this is considered likely to occur any time between 2002 and 2004. If ethylene demand from derivative units continues to increase at current levels, it is likely to be sooner rather than later. However, even if demand from derivative units falls back from the high levels seen over the past year there will still be a strong need for new monomer capacity, particularly if one takes into account lead times for construction projects.

With more idle capacity being utilised there is an emerging argument that adding more monomer capacity is a more important objective than new derivative units, mainly due to the imbalance between the supply and demand for olefins. Effective ethylene capacity stands at roughly 2.8 million tpa and yet derivative capacity if fully used would exceed that figure. The imbalance between ethylene supply and demand is accentuated by the obsolete picture faced by numerous EP-60 plants, combined with the less than optimal running rates of the EP-300 plants. None of the EP-300 units have ever run at design capacity, whilst by comparison many of the polymer and other derivative units (based on imported technology) quite often run at much higher rates.

The graphic below illustrates the substantial improvement in ethylene production for the first quarter over the past three years. Much of the successive increase between Q1 1998 and Q1 2000 can be attributed to the usage of capacity which had been standing idle or operating at low rates. Plants falling into that category include Angarsk, Kstovo, Budyennovsk and to a lesser extent Salavat.

In addition, mainstream producers such as Nizhnekamskneftekhim and Kazanorgsintez increased their production, probably to levels which might not be surpassed without some form of investment. Over the next year or so therefore increases in Russian ethylene production will need to come from plants where effective capacity is not yet being maximised. Tomsk is the most obvious plant where good utilisation could have a positive effect on Russian ethylene, and the position is discussed above.



LUKoil-Neftekhim, as reported in last month's issue, is considering a project in the Caspian region. Whilst such a project might expand the aggregate capacity for ethylene its geographical location would not yield any advantages for derivative units in the Volga-Urals region, from where probably the greatest demand is likely to come. LUKoil-Neftekhim is also to be known to be seeking an upgrade of the polyethylene facilities at the Stavrolen complex at another stand-alone complex Budyennovsk.

Similarly to Budyennovsk and a proposed project for the Caspian region, the Novy Urengoy project in the Yamal-Nenets region of West Siberia will provide no benefit elsewhere in Russia. Monomer availability is becoming tighter in the Volga-Urals region and effectively expanding and developing existing facilities may represent the best policy. The availability of the regional ethylene pipeline gives a good market opportunity for selling and buying surplus monomer, which could help to keep derivative units running when a cracker is undergoing maintenance, etc.

Thermoplastics China imported from Russia 10,541 tons of LDPE in the first quarter this year, which was down quite noticeably against last year's volume of 30,562 tons. China imported 6,524 tons of HDPE in the first three months against 4,511 tons in the same period last year. The Chinese market can vary from quarter to quarter and the second quarter is expected to see more product being shipped. An encouraging sign is that Russian polyethylene output increased in the first quarter despite the reduction to China. Total production for HDPE and LDPE in Russia amounted to 252,100 tons against 208,322 tons in the same period in 1999. In the first quarter of 2000 Russia exported a total of 59,122 tons of LDPE and 36,298 tons of HDPE.

Polystyrene output in Russia is benefiting this year not only from higher production levels at the Salavatnefteorgsintez unit, but also from the new joint venture Polystyrol, formed between Nizhnekamskneftekhim and Omskhhimprom. The joint venture is based on the polystyrene plant at the Omskhhimprom complex under which Nizhnekamskneftekhim provides the styrene monomer. The only other Russian producer of note is Plastik at Uzlovaya.

Russian polystyrene production totalled 33,847 tons for the first five months against 24,090 tons for the same period last year. At current production levels Russia could exceed 80,000 tons of polystyrene this year compared to 67,620 tons in 1999 and 35,076 tons in 1998.

Chlorine/Caustic

In the first five months of 2000 Russia produced 495,400 tons of caustic soda, 24.9% higher than in the same period in 1999. The two largest producers were Kaustik at Sterlitamak and Kaustik at Volgograd, followed by Khimprom also at Volgograd and Usolyekhimprom in the Irkutsk Oblast. As a company OAO "Kaustik" at Volgograd increased total sales in 1999 partly due to exports which accounted for \$7 million worth of business. Profitability was good but could have been higher had it not been for the rising prices for raw materials and higher tariffs for electricity and energy. The most important feature of the company's development is the transfer to a new energy source at the plant. OAO "Kaustik" belongs to the holding group ZAO "South-Eastern Chemical Company" in the Volgograd region.

The main plans for OAO "Usolyekhimprom" in 2000 involve developing the calcium carbide unit. The company feels that it is necessary to invest 25 million roubles for equipment purchases and repairs to the carbide furnace. In November and December this year the company will supply calcium carbide to China. Carbide supply will amount to 8,000 tpa.

PVC

In the first quarter this year Russia produced a total of 116,600 tons of PVC compared against 97,886 tons in the same period last year. Total exports in the period January-March 2000 amounted to 75,105 tons, of which 54,343 tons were sent to China compared to 43,369 tons in 1999. Most of the product going to China is supplied from the Sayanskkhimprom plant in the Irkutsk Oblast.

Russian PVC Production (unit-kilo tons)			
<i>Producer</i>	<i>Location</i>	<i>Jan-Mar 2000</i>	<i>Jan-Mar 1999</i>
AO "Plastkard"	Volgograd	15.4	17.3
AO "Kapolaktam"	Dzerzhinsk	7.6	6.4
AO "Kaustik"	Sterlitamak	34.6	26.5
AO "Usolyekhimprom"	Usolye-Sibirskoye	5.9	4.4
AO "Sayanskkhimprom"	Zima	40.3	34.5
Other		12.8	8.8
Total		116.6	97.9

In the first six months of 2000 Sayanskkhimprom produced 88,618 tons of PVC compared to 75,500 tons in the first six months of 1999. Utilisation rates at the plant depend not only

demand from China, but also the quantity of ethylene supplied by pipeline from Angarsk. Both sides of the equation have performed well this year. In 1999 OAO "Sayanskkhimprom" returned a profit of 355,794 million roubles against losses of 180.5 million roubles in 1998. The company forecasts a net profit of 250,100 million roubles for 2000. Total sales were up 11% for the first half of 2000 due largely to the increasing stability of PVC production. Higher PVC capacity utilisation looks set to continue being boosted ethylene supply at the Angarsknefteorgsintez plant.

A scheduled shutdown and revamp of the PVC unit at Sayanskkhimprom was started in late July. The work will be carried out by OAO "NIIchimash". Various parts of the PVC unit need an overhaul. The units for chlorine and caustic soda have not been closed for maintenance.

With the strong orientation of Sayanskkhimprom towards the Chinese market the Russian domestic market is left depending on several small producers, and one very modern plant at Sterlitamak. Kaustik at Sterlitamak produced 34,600 tons of PVC in the first quarter, the highest volume it has achieved since the plant was constructed. In Q1 1999 the company produced 26,813 tons. The only other Russian PVC producer of note is the Plastkard plant at Volgograd which produced 15,400 tons in the first quarter of 2000. Plastkard was intending to borrow finance in order to increase PVC production capacity by 50%, but this project has still not been implemented.

Improved ethylene flows from Kstovo have helped EDC and subsequent PVC production levels. In the first five months of 2000 Kaprolaktam made a net profit of 79 million roubles, roughly ten times more than in the same period in 1999. Production increased by around 30% in value terms, although this follows a logical course as prices for most products have increased. In addition to PVC, plasticizer production increased at Kaprolaktam although there has been a fall in the production of liquid chlorine and coagulants. This is due to lower demand for these products after the introduction of new plants for the processing of mains water in the Nizhniy Novgorod region. Regarding the bankruptcy position of Kaprolaktam the administration of Dzerzhinsk is to

ask the Nizhniy Novgorod court of arbitration to extend trusteeship of the company for eight years.

Methanol The Italian company Group Triboldi, being the largest investor (around \$12 million) and co-founder of the new methanol terminal joint venture Azovproduct, has attracted consultancy support from the European Bank for Reconstruction and Development (EBRD). The aim is involve the EBRD in the large-scale project at in Azov (Rostov region). The parties in the venture have complied to conclude an investment agreement, providing for certain tax allowances with the regional administration.

Synthetic rubber Bureau Veritas Quality International has been assessing Nizhnekamskneftekhim concerning quality certification for butyl rubber production. A quality audit of the plant was undertaken in the period June 27-30. The butyl rubber plant at Nizhnekamsk started in 1973 and by 1975 its capacity had risen to 30,000 tpa. This had risen to 45,000 tpa by 1988 and to 60,000 tpa by 1999. Of the output around 85% is exported outside of the CIS. Butyl rubber, used in the tyre industry, has a commodity price in the range of \$1,500 per ton. The high market price combined with the fact that the only competition comes from Exxon and Bayer has influenced Nizhnekamskneftekhim to try and improve quality. The aim is to achieve certification levels of MS ISO 9002-94. Bureau Veritas Quality International is now in the process of assessing whether this certificate should be awarded.

Nizhnekamskneftekhim has bought out a controlling stake in Yefremov synthetic rubber plant, a raw material customer of Nizhnekamskneftekhim. The stake has been bought from its foreign partners - Kautschuk GmbH, the French group Safic-Alkan's unit, and from the German company Albrecht. The Nizhnekamskneftekhim take-over of the Yefremov synthetic rubber plant will give Nizhnekamskneftekhim the chance to increase rubber output to levels of 200,000 to 220,000 tpa.

The Tatarstan government is considering plans to sell its interest in Nizhnekamskshina to Tatneft, which will make Tatneft the controlling shareholder and is likely to combine cash and an investment commitment. Nizhnekamskshina is the largest tyre manufacturer in Russia, with 40% of the combined market in truck and passenger vehicle tires. In 1999, it made \$10 million net profits on \$195 million net revenues.

Omsktechnuglorod (Omsk Plant for Carbon Black) has decided not to pay out dividends for 1999 due to the requirements for investment in new sources of energy. The contraction of a new generator will cost around 100 million roubles and the project can only be financed though the company's own profits. Until now the company has been dependent on purchased electricity. However, the rising costs in the past year have meant that there has been very little difference between production costs and the export price of carbon black.

Fibres SIBUR intends to buy Volzhskiy Khimvolokhno by the end of 2000. Production of cord fibre was revived at the end of May, helping to supply the line for spandex fibre production. SIBUR is supplying caprolactam to Volzhskiy Khimvolokhno for polyamide production. SIBUR has also been active in reviving synthetic rubber production at Volzhskiy in which SIBUR plans to invest up to 200 million roubles. There are plans to try and integrate Volzhskiy Khimvolokhno into one production chain involving synthetic rubber, the nitric acid plant and the local Voltyre tyre plant. This integration will help to reduce costs and improve competitiveness.

Ryazan Khimvolokhno produced 18,532 tons of viscose fibres in 1999, 2.8% more than in 1998. Despite the increase, production fell short of the pre-1999 level by 2,703 tons due to a shortage of cellulose. The company also produced 11,303 tons of sodium sulphate in 1999, 15.7% more than in 1998, and 505 tons of bleaching cotton, 19.5% more than in 1998. The company's production capacity operated on average at 37% in 1999, thus there is still much scope for increasing production levels. Some of the export destinations include France, Egypt and the Czech Republic.

OOO "Visko-Holding" has agreed with the local Tver administration to invest more than \$60 million in the viscose fibre producer OAO "Tverkhimvolokno-Viscose". Within the framework of the current agreement a new company will be formed in which the local administration will own 30%. OAO "Tverkhimvolokhno-Viscose" will undergo a major restructuring. External management was introduced into the company in January 1999 following a period of bankruptcy and ended on July 20 this year. Visko-Holding intends to upgrade much of the plant equipment and plans to install new units.

Other news

In the first half of 2000 Ufakhimprom's production increased by 67% in value terms with herbicides, in particular, showing higher output. A priority of the company is to invest in imported equipment for the packaging of herbicides.

BASF Coatings is considering forms of co-operation with the Yaroslavl paints plant "Victory of Workers" with a view towards producing paints for the automobile industry. The first stage of this co-operation will be to transfer BASF's technology for car lacquers to the Yaroslavl site which should start producing for the AvtoVaz car plant in the fourth quarter this year. There are also plans to create a joint venture for the production of paint materials. The Yaroslavl plant hopes that the co-operation will not be solely driven by the introduction of new technology, but also marketing.

Ukraine

Oriana

At the end of July the government announced that a new company is to be created to repay Oriana's German credit worth DM212.5 million, granted in 1992 for the construction of an HDPE plant. Earlier in the month the Ukrainian government stated that it will not sell Oriana this year. For some time it has been assumed that the Cabinet of Ministers planned to sell 92.53% of Oriana via an open tender. The latest proposal seems geared towards attracting an investor into a new company without actually forsaking equity ownership of Oriana. This 'investor', which will be determined via open tender, will be required to provide equipment and petrochemical feedstocks. Oriana's full privatisation faces opposition from company's management and regional administration. Currently, the Ivano-Frankivsk administration manages 50% + 1 share of the company.

For the first five months of 2000, pre-tax losses of Oriana totalled 38.57 million hryvnias versus 64.68 million hryvnias for the same period in 1999. The slight improvement in Oriana's performance was attributed to the transfer of the state's stake in the company to the control of Ivano-Frankivsk regional administration. This was combined with slightly higher capacity utilisation for olefins and VCM. However, this tends to conceal the problem that some of the major petrochemical units at Oriana are in serious danger of being made inoperative by the stop-start policy tactics that have been in place over the past few months.

Linus

The Ukrainian Property Fund announced on July 10 that Tyumen Oil Company-Ukraine (Kiev), owned by TNK, was the winner of the commercial tender on sale of the 67.41% government stake in Linus at Lisichansk. TNK bought out the stake for around \$10 million (53.1 million hryvnias) which marginally exceeded the starting price of 48.518 million hryvnias. In addition, TNK has undertaken to repay \$130 million worth debts owed by Linus to creditors, in particular the defaulted loan for the German bank WestLB for the polypropylene plant started in 1994. TNK intends to establish an oil producer on the basis of Linus and to launch production of high-octane petrol Ai-95 and Ai-98, bitumen and soft roofing. LUKoil had been engaged in long talks with the Ukrainian government over the privatisation of Linus, but had failed to agree on the price and the size of a stake.

Linus is a relatively modern refinery for the CIS, with a refining capacity of 18 million tpa. TNK should be able to pay around \$1.2 p/bbl of Linus' refining capacity assuming that it will be able to restructure West LB's loan and have it repaid out of Linus own cashflows. This price would

compare favourably with the average \$2.1 p/bbl of design capacity, paid by LUKoil for the acquisition of its refineries in Ukraine, Bulgaria and Romania.

TNK's plan for the restructuring of the Lisichansk refinery involve \$11 million investment, delivering 4 million tons of oil to repay the refinery's debts due to creditors. TNK-Ukraine will also need to pay 10.7 million hryvnias to the state budget, invest 13 million hryvnias into the refinery's working capital and 60 million hryvnias to modernise the plant over the next five years. Linos has a product pipeline connection with the south of Russia, an area with expected fast growth in demand for motor fuel.

Crimean Soda Ash Plant

According to Deputy Head of the Ukrainian State Property Fund (SPF), only one bidder has filed an official application for the Crimean Soda Plant. This outcome automatically annuls the tender's results. At the preliminary stage, as many as fourteen companies, including nine foreign, inquired to the SPF about the plant. Only General Chemicals Group Inc (USA) submitted its bid by the June 30 deadline, which made the sale invalid. The Fund's experts are to analyse the situation and decide how to proceed further.

The privatisation of the plant, located in Krasnoperekopsk in Crimea, was hampered by numerous attempts by Crimean authorities to stop the tender, and also by a brief suspension by President Leonid Kuchma. He feared the plant would be sold for a 'give-away price'. Germany's Commerzbank was the financial adviser for the sale. The Crimean Soda Plant's statutory capital is 180.06 million hryvnias. The plant produced 413,500 tons of soda in 1999, or 90% of Ukraine's soda output.

For the first five months of this year, the pre-tax profit of the Crimean Soda Plant increased 102% compared to the same period in 1999, totalling 14,227,000 hryvnias. Production grew by 27.8% to 88,360,000 hryvnias, while sales rose by 31.2% to 87,971,000 hryvnias. Exports accounted for 8.5% of the company's sales, with a bulk of it going through intermediaries for sale abroad. Accounts receivable amounted to 44,551,000 hryvnias, while accounts payable reached 91,348,000 hryvnias.

RivneAzot

The RivneAzot chemical complex, which has been put forward as part of the Ukrainian privatisation programme, had its energy supply cut on July 7. This resulted from a cabinet decision to cut off debtor companies which owe money for electricity. RivneAzot incurred losses last year due to non-payments for fertilisers supplied for agriculture under governmental orders. The company continued to supply customers without payments, 'being aware of the importance of sowing campaign for Ukraine's economic well-being'. RivneAzot has been selling fertilisers through Naftogaz Ukrainy to agricultural enterprises in the Odessa region and the Kherson region under the state programme.

This year Naftogaz Ukrainy agreed with the government to supply 300,000 tons of fertilisers to the domestic agricultural sector, of which RivneAzot was cited as one of the main production plants. In 1999, Ukrainian agriculture used 415,000 tons of fertilisers of which 356,000 tons were delivered under a pre-arranged state programme.

Despite energy cut-offs RivneAzot is aiming for 4.8 million hryvnia in net profit for 2000. RivneAzot specialises in the production of ammonia and ammonium nitrate. Adipic acid is also an important commodity. In the first four months of 2000 RivneAzot exported 2.043 tons of adipic acid to Taiwan. RivneAzot's statutory fund totals 85,094, 030 hryvnia. A 53.86% stake is under control of the Rivne regional administration, and two stakes of over 10% each are in the hands of Energobut and Pulkhim. Foreign companies may not be allowed to bid in the privatisation process, but if they are what is certain is that they will be asked to satisfy a number of onerous conditions, i.e., pledges of investment over five years, etc. Probably the key question for any bidder is will the complex be sold as a separate entity or as self-contained parts? Adipic acid producers, for example, would not be particularly interested in fertilisers. Until the intentions of the

State Property Fund become known the situation remains speculative. Last year, the State Property Fund sold 11% in RivneAzot via the stock exchange, generating 6,521,149 hryvnias.

Kazakhstan

After a brief period of inactivity due to routine maintenance the Pavlodar oil refinery resumed operations in the middle of July. The plant will not, however operate at full capacity, as the refinery continues to experience problems with its supply of feedstock. The refinery halted operations for maintenance at the end of May. The Kazakh government has taken back control of the Pavlodar oil refinery after cancelling a management contract with US company CCL Oil. The state property and privatisation committee abandoned a five-year deal which granted CCL Oil control of the state's 87.9% share in the Pavlodar refinery since 1997. The shares were transferred to the energy, industry and trade ministry the following day. The general prosecutor's office said that CCL had failed to fulfil its commitments, notably ensuring the refinery's effective management.

Kazakhstan plans to increase oil shipments to the Kherson oil refinery in Ukraine, from 1.2 million tpa to 3 million tpa. In future, Ukraine hopes to receive up to five million tpa of Kazakhstan oil. At present, Kazakhoil manages a controlling package of shares in the Kherson refinery, and 63% of the enterprise will be put up for tender in November or December of this year. The cost of the state package initially was estimated at \$60 million, but that figure could be flexible.

The private company LP-Gaz at Shymkent plans to start building a gas cylinder production plant near Almaty in south east Kazakhstan this autumn. The new type of cylinders produced at the plant will be used in multi-story buildings. The cost of the project is estimated at \$2 million, and financing is expected to come in the form of an eight-year loan from the International Financial Corporation. The construction of the plant will take no more than one year.

At present, the Kazakhstan market has demand for 1.2 million world-class gas cylinders. The plant plans on producing up to 100,000 cylinders per month. Other future plans of LP-Gaz include the opening of service stations near Almaty, in addition to Kokshetau and Semipalatinsk. The company has already opened a similar station in South Kazakhstan that cost \$ 1.5 million and has a capacity of 15,000 tpa of liquefied gas. The station's main suppliers of liquefied gas are the Tengiz and Novouzensky oil deposits, and the Shymkent oil refinery (ShNOS).