

CIREC

MONTHLY NEWS

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

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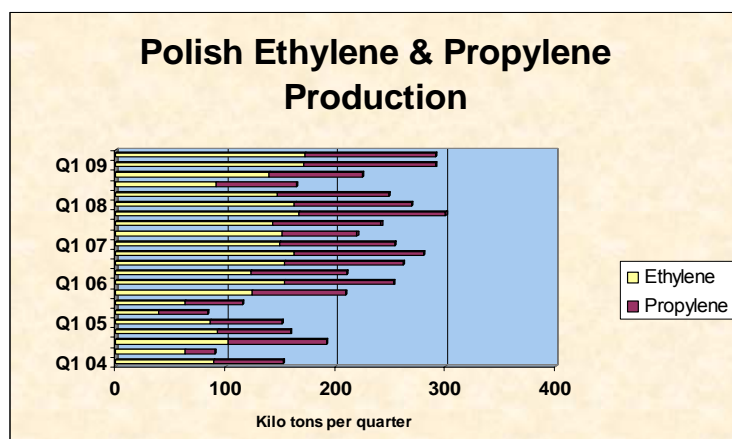
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- ✚ Nizhnekamskneftekhim has won its court case against Kaustik over 71 million roubles which had been claimed for an ethylene contract price in 2006
- ✚ The Russian phenol market was down 36% and 33% respectively for production and consumption in the first five months of 2009
- ✚ The IFC is to grant Kuibyshevazot \$20 million to support its programme for energy efficiency and clean production in the 2009-2010 period
- ✚ Polypropylene production at Lisichansk totalled 9,078 tons in June, which was 30.5% more than in May and 10% more than in June 2008
- ✚ Rosneft expects to start construction in 2010 of a new seaport in the area of the planned Primorsk Refinery in the Russian Far East
- ✚ Nitel aims to phase out commodity chemical production at Usolyekhimprom by 2015, with the aim to focus on polysilicon production
- ✚ Polymatiz has opened new processing plant in Tatarstan

CENTRAL & SOUTH EAST EUROPE

Petrochemicals

Orlen group news

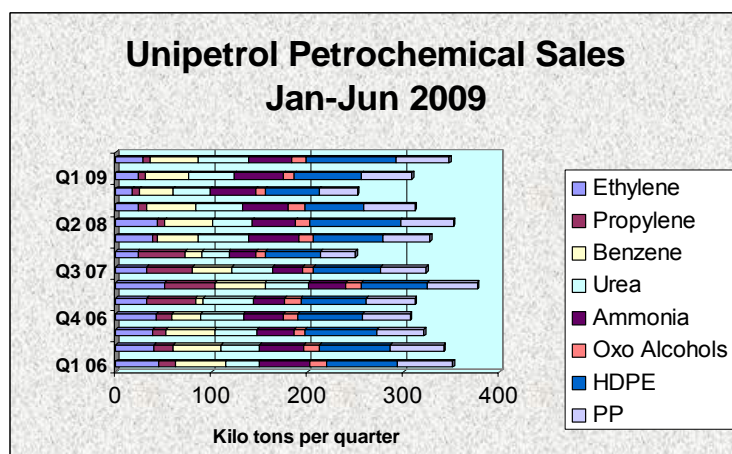
PKN Orlen has signed a contract for Russian export blend crude oil supplies in the third quarter of 2009 via the Druzhba pipeline to Unipetrol. The oil will be supplied by Star Oil Establishment, which has offices in Liechtenstein, and the contract is estimated to be valued at \$134 million. Until now, Star Oil has supplied Unipetrol with oil under spot contracts, which have totaled \$568 million over the last 12 months. In addition, PKN Orlen has terminated the term contract with KD Petrotrade which has offices in the United Arab Emirates. Under the contract, Petrotrade has supplied PKN Orlen with 2.4 million tons of Russian export blend crude oil (Rebco) per year through the Druzhba pipeline, and was to run until 30 June 2010 but this has now been changed.



Ethylene and propylene production at Plock ran at full capacity in the second quarter. Ethylene production totalled 172,200 tons against 147,800 tons in Q2 2008, and propylene totalled 119,200 tons against 101,400 tons. Polyethylene production at Plock totalled 113,700 tons in Q2 2009, and propylene 84,700 tons. An outage at the Orlen cracker took place at the end of June which forced LyondellBasell to declare force majeure HDPE grades produced by Basell Orlen Polyolefins. Apart from grades used for films and injection moulding, LyondellBasell was able to find sufficient polyethylene reserves from other plants to

supply customers. The force majeure was lifted in late July.

Unipetrol expects that the shutdown of the Litvinov ethylene unit (at the end of May and into June) will cost the group in the range of Kc 55 million for the second quarter results. The reason for the shutdown was repair of propylene refrigerant system, and the ethylene cracker was out of action for 16 days. At the same time, the company took advantage of this shutdown to correct control system problems. The total cost impact of the shutdown has turned out to be lower than the shutdown plan, and includes both lost margin and maintenance costs. In addition, the Kralupy refinery also undertook a periodic turnaround from 15 April 2009, requiring 25 days for FCC complex maintenance. The cost of this shutdown has been estimated in the range of Kc 77 million.



Factors affecting Unipetrol's turnover in the second quarter, and particularly for the rest of the year, include the permanent shutdown of the oxo alcohol unit. However, Unipetrol expects that the closure of the Litvinov unit at the end of May will not impact on future profits. Other units under assessment by Unipetrol for continued operation or closure include ammonia and urea. Demand for olefins were relatively good but still below traditional levels. Higher prices resulted in improved olefin margins with some weakness at the end of the quarter. Polyolefins faced increasing feedstock costs and demand is still rather

depressed which is reflected in weaker polyolefin margins.

Petrohemija-loan secured from government

HIP Petrohemija has secured at least €10 million in financial support from the Serbian government that is expected to allow a restart production within a few weeks. At least €10 million has been awarded to the

company in the form of a grant, which would enable it to restart its 200,000 tpa ethylene plant and polyethylene production lines on either 1 August or 15 August. With this amount of financial backing, the company should be able to buy around one month's supply of feedstock. Subsequent sales of polyethylene could allow the company to generate income and enable it to purchase feedstock independently.

The €10 million grant has been earmarked to spend €7.2 million on naphtha and €2.8 million on social assistance payments for laid-off workers. At least 500 of the company's 2,300-strong workforce are set to lose their jobs under a restructuring plan being prepared by Serbia's privatisation agency. Petrohemija owes around €81.8 million to NIS, while €31.7 million is owed to LUKoil. Discussions are underway with both creditors how to resolve the debts for feedstocks. A restructuring programme is being implemented which is likely to lead to a significant reduction in costs, whilst the company has been forced by the debt picture to examine all possible measures in order to stay operative and competitive.

South East European petrochemicals-upstream

LUKoil is investing \$249 million in 2009 in the Bourgas refinery to produce cleaner motor fuels and meet stringent European Union emission standards. The refinery will use most of the funds this year to upgrade and build new hydrocrackers to meet the EU standards as of 2009. LUKoil Neftochim at Bourgas encountered short outage in July, affecting refining and petrochemicals. Faults in electric power deliveries were the cause, but the refinery gradually returned to normal operations. The ethylene cracker stopped production, which meant that petrochemical and polymer production was down for few days.

Romp petrol Rafinare, controlled by KazMunaiGaz, intends to take part in a share capital increase for Rompetrol Downstream and for Rompetrol Petrochemicals. Srbijagas is interested in projects relating to LPG on the island of Kirk in Croatia, as both Serbia and Croatia have an interest to continue the cooperation in the energy sector. NIS held by Gazprom-Neft, is planning to take the lead in regional fuel production and exports. As of 2012, production will be expanding.

The management of the Croatian state-owned oil pipeline operator Jadranski naftovod (Janaf) had taken a decision to buy an oil derivatives depot at Zitnjak, Zagreb from Dioki. The company will buy the depot with the equipment and infrastructure. Janaf plans to open a terminal for oil derivatives storage.

Chemicals

ZAK-CO2 chemical project

Zakłady Azotowe Kedzierzyn (ZAK) has outlined a plan to build a new energy-heat generation complex, with a CCS installation capturing 3.3 million tpa of CO₂. The plan involves building of a new complex to generate electricity and heat from coal and biomass. The total cost of the project has been estimated at between €5-6 billion. The cost will be covered by the company's pending equity investment, in addition to other investor contributions coupled with governmental and European supporting funds.

Polish Chemical Production (unit-kilo tons)		
Product	Jan-Jun 09	Jan-Jun 08
Caustic Soda	35.7	47.6
Soda Ash Heavy & Light	447.3	607.9
Ethylene	233.0	310.4
Propylene	167.3	208.0
Butadiene	22.4	31.4
Toluene	42.5	77.0
Phenol	14.1	25.5
Caprolactam	70.2	81.0
Polyethylene	155.8	197.2
Polystyrene	60.1	55.9
PVC	119.6	145.6
Polypropylene	126.0	140.8
Synthetic Rubber	64.2	68.1
Pesticides	14.2	20.6

ZAK is already in negotiations with a set of investors and is currently conducting feasibility studies for the project. The company is hoping to have concluded all financial aspects for the project in 2011, when construction is targeted to start. The complex would then be commissioned in 2015 and will enable the simultaneous generation of clean electrical power, heat and syngas, as well as the storage of carbon dioxide emitted in the production process. The syngas produced will then be used by an adjacent nitrogen plant and around 10% of heat and electricity generation will come from biomass combustion.

An estimated 92% of the CO₂ emissions will be trapped from the project, 66% through the CCS installation and 26% through chemical 'trapping' of CO₂ in methanol, urea and other chemical products for ZAK. Areas suitable for CO₂ injection can be found near Łódź and Częstochowa,

whilst in order to transport the captured CO₂ to its final storage location a pipeline will be constructed. The ZAK-PKE project is based on a viable business vision in that the project is not only about capturing carbon dioxide, but also about using it for chemical production.

Oltchim-approval of equity for swap

Romania's government has approved a debt-for-equity swap scheme for Oltchim and endorsed a plan to offer it guarantees for a €300 million development loan. The cabinet adopted a memorandum on 15 July to allow €134 million owed by Oltchim to the government to be converted into shares in the company. The €300 million development loan is 80% guaranteed by the state and will help Oltchim to remain an important chemical producer. The cabinet is waiting for the European Commission answer regarding the proposed mechanism of state guarantees, but this is expected to receive approval.

Oltchim's turnover in 2008 stood at around 2 billion lei (\$668.2 million), when it recorded net losses of 234 million lei. At present, the company is running at only around a third of its capacity due to the halt in production at Arpechim's petrochemical division. At the end of 2008, Oltchim had debt maturing this year worth of 1.1 billion lei (\$365 million) and longer-term debt of about 600 million lei. Its 2008 turnover stood at around 2 billion lei and it posted net losses of 234 million lei.

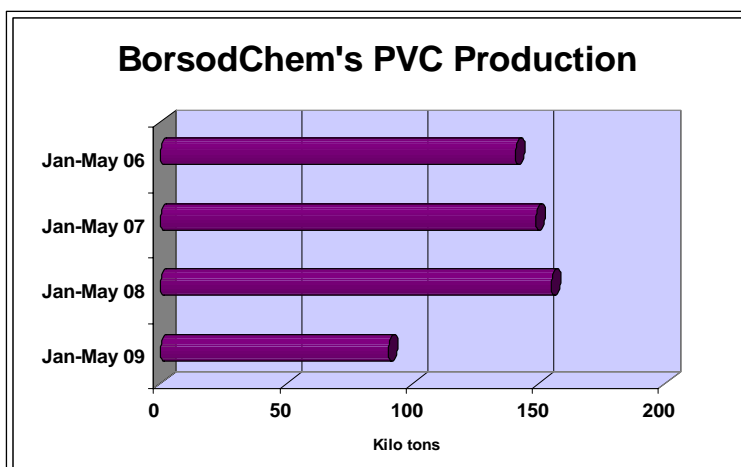
However, Oltchim could reach €460 million worth of business by this year-end, after integrating Petrochemicals Arges in mid-September if events go to plan. In June 2009, Oltchim stated that it was in talks with several banks for a €62 million loan to fund the acquisition of Petrochemical Arges, which was approved by its shareholders on 24 July. The loan carries a six year maturity and about 80% of the loan will be guaranteed by the state-owned bank Eximbank. Effectively, the government has managed to give a guarantee worth €50 million to purchase the pyrolysis from Arpechim Pitesti.

The Romanian government estimates that Oltchim should be running at normal levels by mid-November. The resumption of ethylene and propylene production at Pitesti, after the acquisition of Petrochemical Arges, will facilitate the restart of VCM and propylene derivative production at Ramnicu Valcea. The privatisation of Oltchim has been put on hold for the time being, and with the government becoming involved directly is unlikely to be revived in the short term. Oltchim's development strategy up to the end of 2012 includes investments of €488 million. These investments in modernisation and expansion would allow Oltchim's turnover to exceed €1 billion by around 2013.

BorsodChem

According to the Financial Times, BorsodChem is reported to have seen revenues rise in June after a difficult first part of the year. At the same time, the government has indicated that if BorsodChem does encounter problems in future it is likely to provide assistance in order to keep the company afloat. The government is planning to extend a €100 million loan to BorsodChem, which is conditional on a debt restructuring agreement between parent company Permira and creditors. According to the Financial Times,

the company's liabilities currently total €1.1 billion and the same source claims that the Hungarian government is willing to bail out BorsodChem even if Permira profits from the deal.



In addition to maintaining current operations, the government is planning to approve financial assistance to support the completion of one of its isocyanate projects. The Hungarian Development Bank has agreed a €100 million loan to finance completion of the project. The loan from the state-owned Hungarian Development Bank is conditional on Permira reaching an agreement with

BorsodChem's lenders to restructure its excessive debt. Permira acquired BorsodChem for €1.6 billion in 2006. At the time of Permira's buy-out, banks provided the company with a €300 million capital expenditure

facility which was partly to finance the new plant. However, they are reluctant to allow this to be drawn down now that its earnings have fallen sharply.

In order to obtain approval for government bailout, BorsodChem will be required to restructure debt, with the €200 billion mezzanine financing likely to be converted into capital. Permira is expected to carry out a €80-90 billion capital injection in order to preserve its majority shareholder status. Senior lenders are being asked to roll-up interest payments, delaying their cash payment until the maturity of the loans. In total BorsodChem has about €1.1bn of debt.

In spite of the financial challenges, BorsodChem witnessed improvements in profitability for some products in the second quarter./ TDI prices were increased, allowing the company to show good returns, whilst PVC margins also tended to recover.

Other news in Central Europe

The Agrofert Group has agreed to take a majority stake in the Dutch-based company GreenChem, one of the leading European suppliers of AdBlue. AdBlue is the liquid used by many new lorries and cars in order to reduce emissions and to reach the latest European standards for on the road vehicles. The acquisition will be made by Duslo, the Slovak-based affiliate of Agrofert which has until now been one of the suppliers to GreenChem of urea for producing AdBlue. Duslo had already taken over the Czech affiliate of GreenChem in two steps during 2008/2009.

The French electricity company EDF is constructing a plant on the site of the Novacke Chemické Zavody (NCHZ). The size of the electricity plant is to be designed for 400 megawatts based on natural gas. Construction of the new plant is expected to start in 2010. ZA Tarnow has sold emission reduction units to Mitsubishi Corporation for around zł 135 million, which have been used for reducing nitrous oxide emissions at the Tarnow plant.

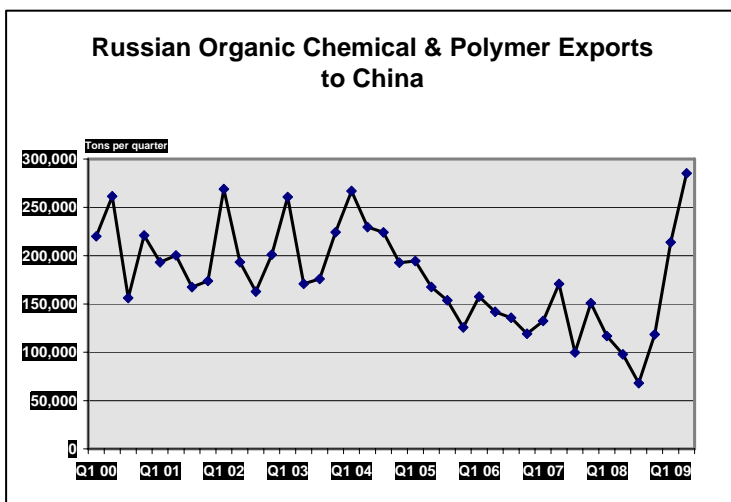
NCHZ is one of nine companies named fined by the EU fixing prices from 2004-2007 for calcium carbide. The cartel fixed prices and share markets for calcium carbide and magnesium granulates in the EU area between 2004 and 2007. Calcium carbide powder and magnesium granulates are used in the steel industry for desulphurisation or deoxidation purposes.

RUSSIA

Russian chemical trade & production Jan-Jun 2009

Russian exports of organic chemicals and polymers to China increased sharply in the second quarter, achieving the highest quarterly volume in the past decade. Over the past few years, Russian interest in the Chinese market has declined as domestic consumption has taken a more active role. However, In order to

maintain production levels Russian producers have needed this year to return to the Chinese market.



Not all products have seen an increase in volume, as exports of certain products such as PTA have stopped completely. Orthoxylene and paraxylene shipments to China have been noticeable this year for the first time in many years, whilst increases have been seen in particular for oxo alcohols, phthalic anhydride, epichlorohydrin and polypropylene. Further details can be found on the Statistical Database at www.cirec.net.

Despite the increase in exports to China, the Russian Ministry of Trade estimates that chemical exports fell more in value in the first half year than imports. Chemical exports totalled \$6 billion in the first half year, 48% down on 2008, whilst imports comprised \$5.4 billion which was 40% down. As a result, the balance of chemicals in foreign trade fell from

about \$2.5 billion in January-June 2008 to \$0.6 billion in 2009. Mineral fertilisers are the main product range which is exported by Russia, accounting for 47% of chemical exports in the first half of 2009 against 41% last year.

From 1 July, new railroad rates were introduced for the transportation of industrial cargoes in Russia, which will affect chemical industry and particularly fertilisers. Producers of mineral fertilisers who do not have their own raw materials are expected to incur higher costs of 10-20% due to the change in rates. The transport component in cost of sulphur and sulfuric acid for the end user could now reach up to 80%, whilst in comparison in 2008 the cost did not exceed 30-40%. An increase in railroad tariffs is likely to impact on trading possibilities. As a result, the Russian Association of Fertiliser Producers (RAPU) is preparing to appeal to the government with a to reverse the tariffs for the transportation of raw materials. The Association argues that the industry cannot survive under higher transport costs.

Russian Chemical Production Jan-Jun 2009 (unit-kilo tons)		
Product	Jan-Jun 09	Jan-Jun 08
Ethylene	1078.3	1199.8
Benzene	479.5	615.1
Styrene	235.3	311.1
Phenol	68.2	125.4
Polyethylene	673.7	666.3
Polypropylene	276.8	258.9
PVC	259.1	306.2
Polystyrene	125.8	148.4
Butanols	134.3	132.2
Methanol	1000.2	1837.0
Syn Rubber	401.3	629.7
Caustic Soda	530.9	649.7
Soda Ash	1106.8	1469.9
Ammonia	6589.3	6771.7

Demand for organic chemical products and polymers in Russia was evidently better in the second quarter compared to the first quarter, but still remains noticeably down on the past two years. Domestic consumers are largely buying from domestic producers where possible, at the expense of importers. PVC has been one of the most affected bulk polymers, with imports having played a key role in supplying the market in recent years.

Overall, industrial production in Russia dropped by 14.8% in the first half of the year from the same period of 2008. The chemical industry recorded a decline in production of 17%, according to the Russian Ministry of Economy. Oil refining totalled 115.5 million tons in the first half of 2009, 0.8% lower than in 2008. Oil production, including gas condensate, rose 0.1% to 242.4 million tons, whilst gas production dropped 20.8% to 274.4 billion cubic metres. Car production in January-June 2009 dropped by 60% to 289,000, whilst lorry production fell by 72.5% to 39,400, and bus production, by 63.5% to 13,200. In the car sector, most of the impact was felt

on imported cars and Russian produced domestic cars. Vehicles produced in Russia by foreign companies performed much better, although have still seen lower sales than last year.

Production of mineral fertilisers in Russia fell by 22.4% to 7 million tons in the first half year; synthetic rubber fell by 37.5% to 401,300 tons, automobile tyres by 44.8% to 11.6 million pieces. Polyolefins and butanols were the only products to surpass volumes in the first half of 2008.

Feedstocks & petrochemicals

Nizhnekamskneftekhim, Jan-Jun 2009

Nizhnekamskneftekhim reduced product sales by 11.5% in the first six months of 2009, down to 24.890 billion roubles. In June, the company achieved 4.581 billion roubles which is 6.7% lower than in June 2008. The butadiene and hydrocarbon raw material plants underwent maintenance from 1 July as part of the company's summer shutdown schedule.

Nizhnekamskneftekhim has won its court case against Kaustik over 71 million roubles which had been claimed for an ethylene contract price in 2006. The Antimonopoly Commission awarded Kaustik the compensation, but having taken the case to a higher judicial body Nizhnekamskneftekhim has seen the decision over-turned. Kaustik had also questioned the ethylene price set by Nizhnekamskneftekhim this year at 1,380 roubles per ton, or 176 roubles higher than in 2008. Nizhnekamskneftekhim was able to validate the reasons for the price increase to the anti-monopoly service. The cancellation of the 71 million rouble fine for prices charged in 2006 to Kaustik is more about principle than the sum involved.

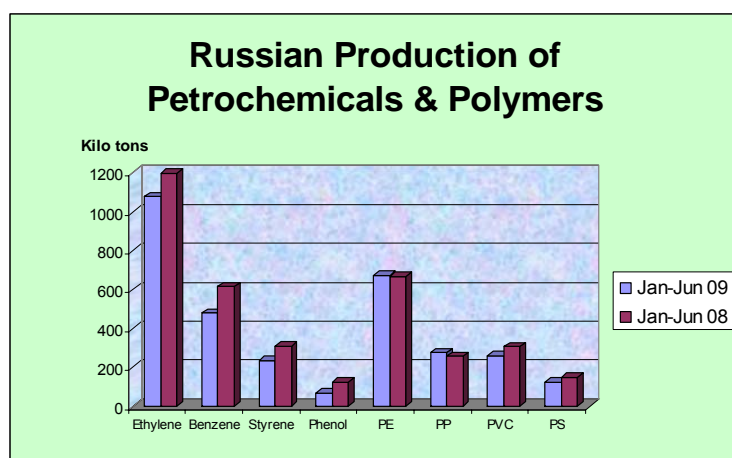
Strong support is being given by Nizhnekamskneftekhim to the creation of an industrial cluster, including small and medium sized businesses, which use products produced in the petrochemical complex. Thus, the start-up of

the Polymatiz plant (see page 14) in the Alabuga special economic zone is seen as an important step in expanding local sales.

With sales and consumption lower this year, the company has focused more on cost savings. The oligomer division has reduced the amount of ethylene oxide, propylene and phenol in the past few months helping to make production more competitive.

Nizhnekamskneftekhim holds a monopolist position in Russia for propylene trimers, tetramers, neonols, polyethylene glycols, and alpha olefins. Around 80% of production from the oligomer division is exported, and thus has been affected more than other divisions in the company. However, sales have recovered to the point where neonols and polyethylene glycols have seen full operating rates in the past two months. Trimer and tetramer production are also expected to increase capacity utilisation soon, although the oligomer division may find it difficult to keep all propylene derivative plants running at 100%. Since the company started producing polypropylene, monomer availability has tightened.

Due to weaker demand this year for butyl rubber, Nizhnekamskneftekhim is considering the possibility of expanding its product range to include food grade butyl rubber used in the production of chewing gum.



Companies such as Wrigley and Cadbury could be interested buyers, and samples are currently being tested by both companies for approval. If the idea is to go ahead, the butyl rubber division will create a separate line for food grade production and if all the necessary approvals and certificates are granted production could start by the end of this year or early 2010.

Kazanorgsintez-government support

Following the default on eurobonds Kazanorgsintez has now been moved to a position where it could obtain state guarantees in the amount of up to 15 billion

roubles. Due to the ongoing economic downturn, the company has been unable to service its debt and in July Standard and Poor's lowered a rating of the company to default level D with CC.

The proposal to lend Kazanorgsintez 15 billion roubles will be presented to the government and if approved the funds could be transferred in a reasonably quick period of time. Kazanorgsintez achieved a loss of 2.8 billion roubles in 2008, which was followed by a loss of 2.6 billion roubles in the first quarter. Debts to the banks amount to around 29 billion roubles, whilst debts to suppliers total around 3.5 billion roubles.

The three banks Sberbank, VTB and VEB, which are the largest creditors to Kazanorgsintez, are drawing up a financial model which would allow them to restructure the debt. However, despite a variety of possible suggestions it seems that without a recapitalisation of the company, that Kazanorgsintez will be unable to eradicate the debt problem. The government loan of 15 billion roubles is thus likely to be granted under the provision that a strategic partner comes into the company ownership. SIBUR may be interested in exchanging some of its debt owed by Kazanorgsintez for shares or bonds. Kazanorgsintez is likely to prefer a strategic partner from the banks rather than SIBUR, as at least that would maintain its independence as a producer. TAIF hopes to keep control of Kazanorgsintez, but it is not involved in arranging bank credits and does not supply raw materials to the complex.

Kazanorgsintez is also discussing ethane supply with the Russian authorities and suppliers. The company wishes to alter the conditions on which it receives ethane, which accounted for a large part of the losses in 2008. Therefore, it is looking for a lower price for ethane from Orenburg, which accounts for around three quarters of feedstock supply, with the remainder coming from the Minnibayevo gas processing plant in Tatarstan. However, it seems unlikely that Gazprom will be prepared to lower the price, even if the government concludes that it has been over-charging. The government will give certain recommendations or the decision how to conclude a long-term contract with specified price formulas. Various scenarios are emerging over what might happen to Kazanorgsintez, none of which is definitively clear at this stage.

However, due to the parlous state of the company's finances, it is quite possible that decisions over its future will be made elsewhere.

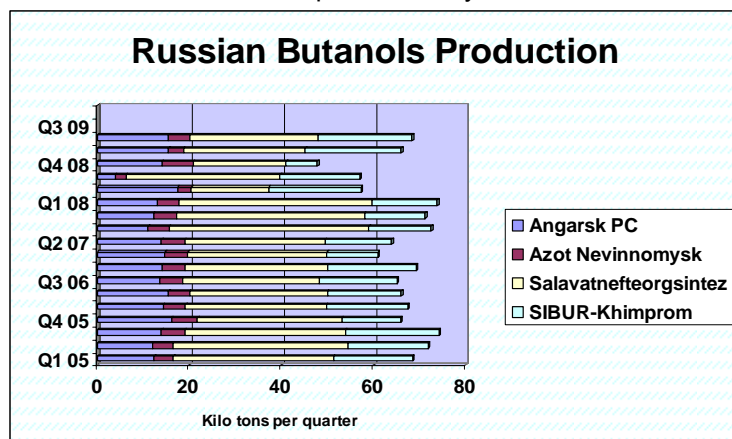
SIBUR-Neftekhim-maintenance completed

SIBUR-Neftekhim completed its planned maintenance on 13 July, having started on 17 June. The shutdown included maintenance on the ethylene pipeline between Kstovo and Dzerzhinsk, supplied to the ethylene oxide and glycol plant. During the shutdown, work was completed on a number of small projects, which could only be undertaken when the equipment was idle. This included the modernisation of the columns supplying propane-propylene fractions and another stage in the modernisation and expansion of the glycol plant at Dzerzhinsk to 230,000 tpa.

SIBUR-Neftekhim strategic investment programme include the expansion of its ethylene cracker to 430,000 tpa, in addition to propylene moving from 114,000 tpa to 180,000 tpa and benzene from 75,000 to 81,000 tpa. Around 7 billion roubles in total has been targeted for the investments into the Kstovo petrochemical complex, with completion in 2012-2013.

Russian butanol production & SIBUR-Khimprom

Russia increased butanol production by 2% in the first six months of 2009, totalling 134,300 tons. SIBUR-



Khimprom increased production by 20% to 41,200 tons, whilst Salavatnefteorgsintez reduced production by 7% to 54,400 tons. The Angarsk Polymer Plant increased production 1% to 31,000 tons. Detailed data for Russian butanol production is available on the Statistical Database at www.cirec.net.

SIBUR-Khimprom is the main supplier of oxo alcohols in Russia, in addition to producing styrene. Over the past few years, SIBUR-Khimprom has modernised its facilities in order that production achieves the same

degree of profitability as other companies in the SIBUR group such as SIBUR-Neftekhim and Tomsk-Neftekhim. The company is now focused on higher profitability areas, and has increased its average salary payment which has allowed it to attract better qualified staff. A bonus system is also in place which provides an incentive for reaching targets.

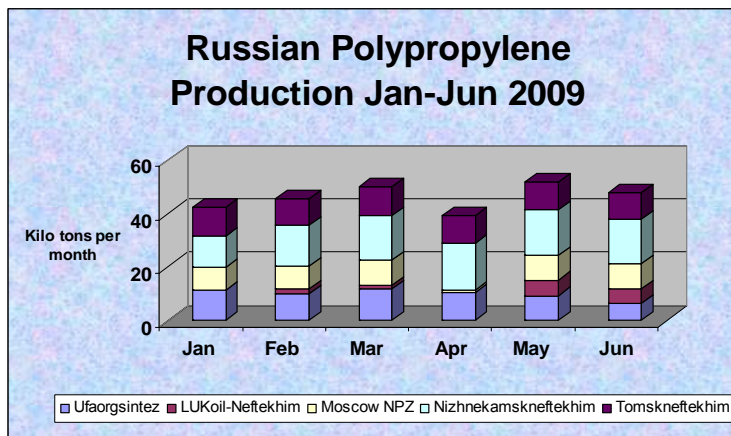
One of the most expensive units for SIBUR-Khimprom to run is the EP-60 plant. The small cracker is essential for providing ethylene and propylene for ethylbenzene and oxo alcohol production, but is based on old technology and equipment. Thus, at some stage, decisions will be necessary regarding ethylene and propylene supply as the EP-60 may have only a few more years to run. At the same time, without any pipeline connection to other derivative plants it remains unclear what size of cracker could be constructed at SIBUR-Khimprom. Whilst considered efficient by domestic standards, SIBUR-Khimprom is considered less so by international standards. The company is focused on reducing electricity and natural gas consumption, whilst in project terms it is concentrating on the construction of a new polystyrene plant. The company is unable to increase product prices significantly in the current climate, and thus the main focus of the company is to reduce costs.

Bulk polymers

Russian polyolefins-LLDPE start-up at Nizhnekamskneftekhim could affect imports

Nizhnekamskneftekhim started the production of LLDPE in July, with the first shipments to the domestic market. The company is producing grades PE 4122N, PE 4118N, PE 4118N and PE 5118Q. No production was planned in August, with the focus on HDPE, but longer-term Nizhnekamskneftekhim hopes to be able to compete against imports in the Russian market. Earlier in 2009, the Russian Commission on Protective Measures has maintained the zero rating for imports of LLDPE. Since the start of the polyethylene plant in February this year at Nizhnekamsk, the company has produced 10 different grades of HDPE.

Kazanorgsintez stopped the production of polyethylene pipe grade in the middle of June due to the need to sell all the stocks in the warehouse, with production only restarting towards the end of July. Nearly all the polyethylene pipe grade produced by the other two Russian producers, Stavrolen and Nizhnekamskneftekhim, is bought by Polyplastik and thus there is limited material for the open market. Nizhnekamskneftekhim stopped production in July and is expected to restart in August. Thus, whilst the Russian polyethylene pipe grade market has been suffering from a lack of demand supply also remains restricted.



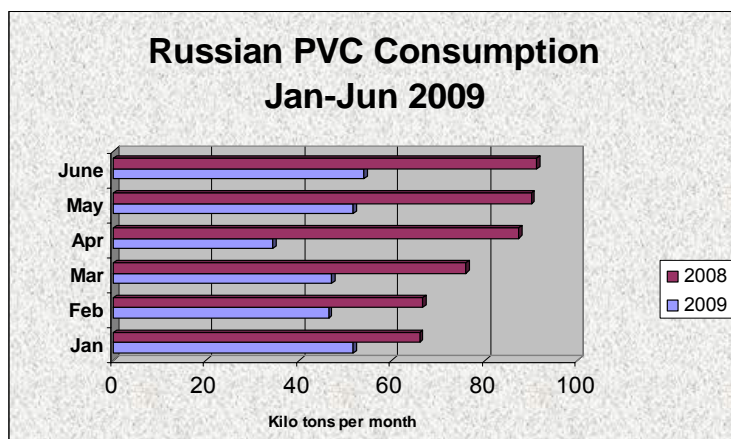
polypropylene production totalled 277,360 tons, which was 11% higher than in 2008. The biggest increases were seen for the Moscow plant (39% to 46,300 tons) and Ufaorgsintez (30% to 58,920 tons). Stavrolen dropped 21% to 14,280 tons whilst Nizhnekamskneftekhim and Tomskneftekhim showed similar results for 2008 and recorded 95,100 tons and 62,750 tons respectively.

Stavrolen restored polypropylene and polyethylene production on 24 May after the accident took place at the complex on 7 March. Stavrolen is undertaking a number of projects this year, one of which includes replacing equipment for the production of granulated polyethylene.

A planned maintenance at Salavatnefteorgsintez is scheduled for the LDPE plant in September and is to take 28 days. If Kazanorgsintez undertakes a shutdown at the same time, it could lead to a tighter market balance and allow prices to rise.

Russian PVC market showing more stability

After a difficult first half of 2009 the PVC market in Russia has started to show some signs of turning the corner, at least in terms of the supply/demand balance. Warehouse stocks of PVC have finally started to fall, after being fully stocked at the start of the year and processors are looking to make new purchases. However, it has become hard to find material in the current domestic market and imports may be necessary to fill the gap which have been largely absent this year.



processors are looking to make new purchases. However, it has become hard to find material in the current domestic market and imports may be necessary to fill the gap which have been largely absent this year. Kaustik at Sterlitamak has stopped production for maintenance until September so this may at least create some artificial shortage. Furthermore, Sayanskkhimplast will undergo a scheduled maintenance in September, although precise dates have yet to be confirmed. The aim is to stop production the same time as the Angarsk Polymer Plant shuts down for maintenance,

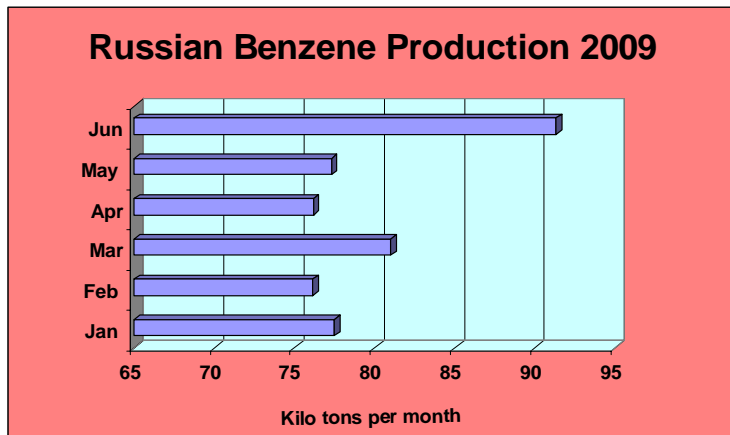
during which there will be no ethylene available for transportation via the 170 km pipeline from Angarsk to Sayansk. These factors suggest an upward movement pricing, even if demand remains weak in comparison to the same period in 2008 and 2007.

From July 2009, Plastkard has started selling PVC directly from its Volgograd plant to customers. Until now, the company has conducted sales through the trading company ETK which it considers restricting volumes and prices. In the first half of 2009, Plastkard reduced PVC production by 5% to 47,240 tons. A target of 93,700 tons has been set for 2009, which puts Plastkard in third place amongst Russian PVC producers after Sayanskkhimplast and Kaustik.

Aromatics & derivatives

Russian benzene market stabilizing

Benzene prices in Russia have been increased in the past two months due to higher crude prices in the



domestic market. At the start of July, SIBUR-Holding increased prices by 2,000 roubles per ton to 20,000 roubles per ton, whilst at the same time traders are selling product in the range of 21,500-22,500 roubles per ton. Demand has been increasing in recent months after the very poor first quarter for most derivatives. Azot at Kemerovo is running its caprolactam plant close to full capacity, whilst Samaraorgsintez is expected to restart phenol production in the near future.

Benzene production in Russia has risen gradually since the start of the year, although volumes are 27% lower this year than in the first six months of 2008 and totalled 388,700 tons. Production of benzene in May increased by 2.2% against April 2009 to 77,900 tons, although it was 18% less than in May 2008. This trend continued into June, with all the main producers recording lower output. The main outlet areas for benzene, phenol, styrene and caprolactam, have all seen lower production volumes in 2009. Caprolactam and phenol production was down in volume by 39% and 23% respectively against the same period in 2008.

In addition to improved demand for caprolactam and phenol, the supply side has been hindered by outages. Kinef undertook a shutdown at the aromatics units at Kirishi in June and restarted in first half of July, whilst SIBUR-Neftekhim completed a shutdown on 13 July. In the xylene market, Kirishinefteorgsintez stopped production of xylenes in the first part of July and expects to return to production on 6 August. The outage has allowed prices for both orthoxylene and paraxylene to rise.

The medium term outlook for benzene and other aromatics in Russia indicates a tightening balance. Aside several small expansions, no grass roots capacity is expected to be constructed in the near term. The Taneko complex at Nizhnekamsk has cancelled plans for an aromatics complex in order to concentrate on oil refining, whilst Kuibyshevazot is examining prospects for building its own benzene plant for captive consumption. However, no extra benzene is likely to be made available to the merchant market which could particularly affect phenol and caprolactam producers.

Omsk Kaucuk has been planning to construct its own benzene plant, but construction has now been delayed to 2012. The company wants to build its own plant in order to reduce and eliminate the need for benzene purchases from the Omsk refinery. Omsk Kaucuk is part of the Titan group and wants to construct a plant with a capacity of 100,000 tpa.

Russian caprolactam market

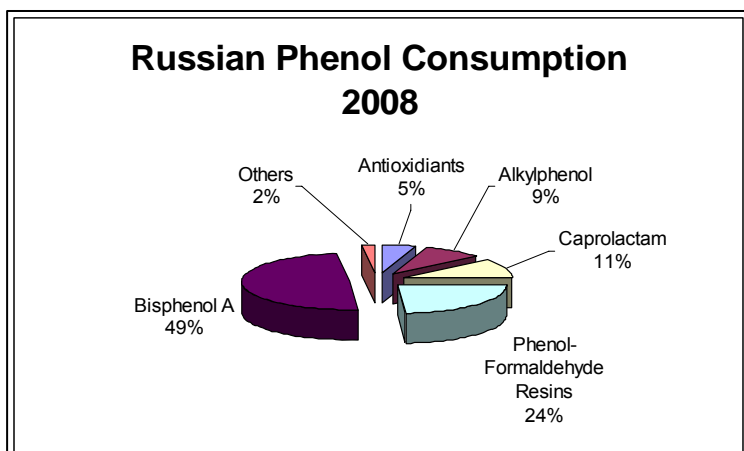
The three caprolactam producers in Russia have been running closer to full capacity since March, after the difficult period encountered in the period October-February. Due to the low utilisation in the first couple of months in 2009, production was down 21% for the first four months with exports mostly affected. Azot at Kemerovo

Russian Caprolactam Market (unit-kilo tons)				
	2008	2007	Jan-Apr 09	Jan-Apr 08
Production	317	323.5	94.8	120.0
Exports	193.9	206.3	54.6	74.8
Import	1	1.2	0.2	0.4
Market Balance	124.1	118.4	40.4	45.6

recorded production volumes of only 52% in the first four months against 2008, whilst Kuibyshevazot and Shchekinoazot were down 9% and 7% respectively. The main reason for Azot recording such low volumes was due to the closure of the SIBUR-Volzhskiy polyamide plant, which is its main consumer. After the restart of

SIBUR-Volzhskiy in the spring, combined with increased export opportunities, Azot has been increased utilisation achieving around 75% in May and 100% in June.

Whilst export volumes are similar to this time year, prices are considerably lower and less profitable. As a result, Russian producers are looking for alternatives to add value to their caprolactam. Kuibyshevazot has led the way over the past few years in developing captive consumption and is currently in the process of adding a fourth polyamide-6 line, this time for cords with a capacity of 50,000 tpa. This will raise total polyamide capacity to 150,000 tpa and substantially reduce the need for exports or sales on the merchant market.



for the production of phenol-formaldehyde resins.

Russian phenol market

The Russian phenol market was down 36% and 33% respectively for production and consumption in the first five months of 2009. The fall in consumption of phenol for phenol-formaldehyde resins was one of the main factors affecting the market. This has led to lower phenol production, whilst moreover since February 2009 the import of phenol to Russia has stopped due to the weakness of the currency. In 2008, Finland was the main supplier of phenol to Russia, with Uralkhimplast being the main consumer. Uralkhimplast uses the phenol

Aside lower consumption, Saratovorgsintez has not been operating this year whilst Samaraorgsintez stopped production between May and the end of July for an extended maintenance shutdown. For first five months of 2009, phenol production totalled 57,400 tons, or 36% down on the same period last year. Due to lower production supply in the market has been extremely tight even at lower consumption rates. Exports of phenol are minimal, whilst the largest part of the production is processed by Kazanorgsintez and Ufaorgsintez into bisphenol A. This accounts for around half the market. Consumption from phenol-formaldehyde resins dropped 37% in the first five months of 2009, caprolactam by 60% and alkylphenols 43%.

Due to less availability merchant sales on the domestic market dropped 40% in the first five months to 34,300 tons. Omsk Kaucuk and Samaraorgsintez are the main merchant market suppliers, which together accounted for 82% of sales. Prices started to rise in the second quarter, after dropping 70% between November 2008 and January 2009. Up to June, the price had risen three times since February and is now 45,000 roubles per ton, inclusive of VAT. Shortages in the market and the lack of imports are expected to help to maintain high prices in Russia.

Kuibyshevazot Capacities for 2009	
Product	Tpa
Caprolactam	180,000
Polyamide-6	100,000
High Tenacity Tech Yarns	9,600
Tyre Cord Fabric	6,700
Ammonia	610,000
Urea	350,000
Ammonium Nitrate	450,000
Ammonium Sulphate	460,000

Kuibyshevazot-IFC grant

The IFC is to grant Kuibyshevazot \$20 million to support its programme for energy efficiency and clean production in the 2009-2010 period. The programme is expected to result in significant energy savings and reduction of greenhouse gases emissions. The total project cost is estimated at \$50 million, with the IFC providing 40% of the investment.

Kuibyshevazot reduced the production of caprolactam and fibres in the first half of this year. Caprolactam was 85.6% of 2008 levels; polyamide-6 was 68.8%, technical threads 64.3% and cord fabrics 74.7%. However, the second half of the year is expected to show improvements. The company is still examining the possibility of constructing a benzene plant despite the collapse last year of the JV with Magnitogorsk Metallurgical Combine. Kuibyshevazot established a ninth unit for the production of high-strength technical threads in June. Equipment was supplied by Alma Zayer in Germany. This increases capacity by 12.5% and allows further integration.

PET project discussed between Ivanovo and Yugra regions

The governments of the Ivanovo and Yugra regions are considering the joint development of the production chain from associated gas through to PET. The Russian design group Metaprocess has been undertaking a study on the possibility of utilising the raw material base in Khanty-Mansiisk in West Siberia and the long-

term experience and traditions of the textile and fibre industry in the Ivanovo region. Investment projects for processing associated gas in Khanty-Mansiisk are being assessed, but for constructing a gas-chemical complex it needs outlet and end-use areas. Agreements have been signed between the Ivanovo region and Yugra, and this has now moved on to a fact finding stage.

In the latter part of 2008, prior to the global financial crisis, Indorama and Evroplast had signed a protocol of intention to build a synthetic fibre plant in the Ivanovo region. The protocol was signed as part of the programme to create a textile industry cluster in the region, based on the traditions of textile production in Ivanovo. The idea was to construct a world-scale PTA plant, but this project seems have been shelved for the time being.

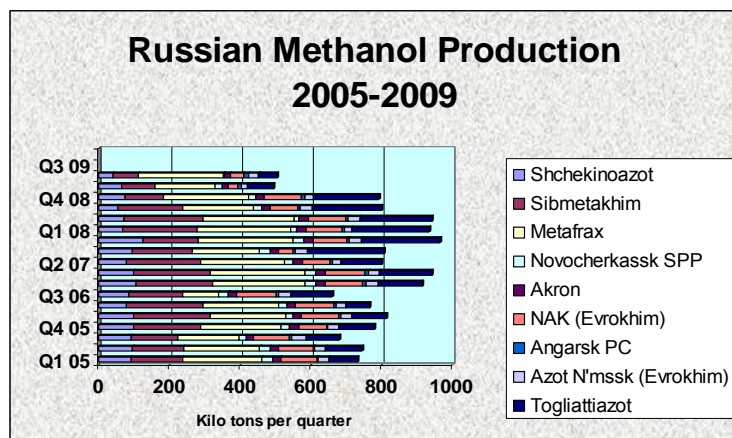
The Ivanovo-Yugra concept may have more substance in view of the added Chinese interest. The Chinese Association of Chemical Fibres has recently been in Ivanovo to consider the creation of a fibre plant, with initial investment plans of around €3.5 million. However, much larger investment sums have been floated by the Chinese side in developing a polyester plant and production chain with the aim of producing hi-tech synthetic textiles and other advanced products. The Ivanovo region has been seeking partners inside and outside of Russia to build on its experience of textiles and the local distraction has offered the Chinese investors six platforms for placing new faculties. Other regions of interest to the Chinese include Tver and Leningrad.

The Khanty-Mansiisk government has also been in discussions with investors from China and Austria regarding the creation of a complex for the production of raw materials for synthetic textiles. A Chinese-Austrian delegation is interested in the interaction and co-operation of the Ivanovo region and the Yugra region which would provide the raw material base. Chinese companies are interested in investment into PET production and further development into the production of synthetic fabrics and fibres. Thus, the Yugra regional administration is now anticipating that China will formulate a package of investment offers, taking the project concept onto the next stage.

Methanol & gas based chemicals

Russian methanol exports fall sharply

Methanol exports by Russia fell by 70% in the first six months of 2009 against the same period last year, down to 314,000 tons. However, as a result of the emphasis away from export, the domestic methanol market



dropped by only 17% in the first six months of 2009. Metafrax was one of a few methanol producers which were able to reorient to the domestic market amid the unfavorable economic climate. The company's focus on the internal market should help it survive the downturn until global prices for methanol rise. This year, Metafrax's revenue may drop 45% to \$174 million, and its net profit may decline by 64% to \$21 million.

For 2008, Metafrax accounted for 22% of total Russian methanol exports but since the start of 2009 the company has tended to focus more on the domestic market. Prices for methanol in May 2009 were 63% of the price level seen in May 2008. At current prices, transport costs account on average for 30-40% of the final export price. At the same time, domestic prices have been much higher by 20-30% than export prices. Internal supplies have much lower transportation costs. Metafrax increased its utilisation rate for methanol to 80% in May and June due to increased domestic demand. The company has been helped by the revival of the urea-formaldehyde resin market, as it is the major producer in Russia for urea-formaldehyde concentrate.

Formaldehyde and resin markets

Formaldehyde output in Russia for the first five months in 2009 totalled 153,400 tons, which was almost

twice lower than in the same period in 2008. With the domestic market in recession, producers of formaldehyde have continued to export and exports were only 15% down on the first five months of 2008.

Sibmetakhim at Tomsk plans to finish planned repair and to renew formaldehyde production in July. However, due to low demand in the Russian market the company will continue to work at less than full capacity. Sibmetakhim halted formaldehyde production in April due partly to the weak state of the domestic market, to which it sells almost all of its output.

Consumption of urea-formaldehyde resins started to rise in May, with consumers buying solely from domestic sources. Demand suffered in the fourth quarter last year and the first quarter of 2009, but with inventories dropping buyers have returned to the market. The production of urea-formaldehyde resins dropped 22% in the first quarter, whilst overall consumption contracted by around 40%. The second quarter has been much better in terms of volumes and profitability. In May, consumption of urea-formaldehyde resins in Russia rose 25% against the previous month, whilst exports rose 50%. However, exports to Ukraine have fallen as Russian suppliers have tried to pass on higher transport costs to end-users. Metafrax is the largest producer of urea-formaldehyde concentrate in Russia, accounting for 19% of the company's overall sales in 2008.



The production of phenol-formaldehyde resins dropped by 22% in the first half of 2009, down to 52,000 tons. Consumption is estimated to have dropped 30% against the same period in 2008 to 61,500 tons. Overall for the first half of 2009, exports remained insignificant and the same could be said for imports, which dropped 55% against 2008. Imports accounted for 30% of the phenol-formaldehyde resin market in 2008, but have dropped to 18% so far this year. Demand for phenol-formaldehyde resins in Russia tends to be seasonable, with the summer months seeing the highest consumption. High prices for

phenol in Russia at the moment are thus providing upward pressure in resin pricing.

Hexion-Shchekinoazot start-up

The start-up of the new phenol-formaldehyde plant on the Shchekinoazot site was delayed by a few weeks due to a lack of proper documentation. As a result, the plant started in July rather than June. The JV Hexion-Shchekinoazot plant has an initial capacity of 5,000 tons per month, with formaldehyde supplied by Shchekinoazot and phenol bought on the open market. The new resins plant will initially produce phenol formaldehyde resins before expanding to urea formaldehyde resins and other thermoset formaldehyde derivatives.

Metafrax-pentaerythritol restart

Metafrax has resumed pentaerythritol production, for which it is the sole producer in Russia. Start-up operations began in May and the first batch of product was turned out in June. Pentaerythritol production had been on hold since mid-January 2009, due to extremely low demand for the product. Pentaerythritol sales accounted for 11% of the total revenue of Metafrax in 2008. Up to 27% of pentaerythritol output from the company goes to export.

Novocherkassk Synthetic Products Plant-starts disassembly of methanol unit

Novocherkassk Synthetic Products Plant has begun the dismantling of the methanol plant, following the halt in production last month due to non-profitability of sales. From six compressors used for the production of methanol three have already been mothballed. The closure of the plant is expected to lead to some redundancies in September. In fact, the closure of the methanol has affected most of the company's production. In June, only the units for n-methyl pyrrolidone, formaldehyde and polyurethane foams remained in operation, with losses of around 70 million roubles being incurred monthly and debts accumulating for gas supplies. The owner of Novocherkassk Synthetic Products Plant is threatening to close the plant in full unless some restructuring plan is devised.

Azot Novomoskovsk-methanol contract

Azot at Novomoskovsk (NAK) has concluded a long-term export contract with its holding company Evrokhim for methanol, estimated in the range of \$80 million. The contract has been agreed on the basis of a methanol price at \$295 per ton (DAF Russian border), which represents a premium of around 34% over the current price. Around 270,000 tons of methanol will be supplied between 15 August 2009 to 31 August 2010. In 2008, Azot exported 272,000 tons of methanol which accounted for 79% of the company's total production.

Nevinnomyssk melamine project

Azot at Nevinnomyssk has met with several local bodies to consider the construction of the melamine plant, which was announced last year. Following the meetings, approval has been given and the company is now able to proceed with the project. As with most new chemical projects in Russia, green issues are key factors that come under consideration in order to prove that the planned production will not be harmful to the local population or the environment. Thus, Azot is required to be open about its plans and to inform local people about the stages of construction, implications of the project, etc.

Currently Russia imports large volumes of melamine, estimated at around 40,000 tpa, but until now it has not been possible for any chemical producer in Russia to secure a technology license. Evrokhim has finally succeeded through Lurgi and now plans to invest around €184 million into a 50,000 tpa plant. By producing melamine, Azot will be able to reduce the amount of urea emissions from urea production. Thus, the project possesses advantages beyond the creation of new jobs and producing a new product for the domestic market.

Azot-creation of state holding company for fertiliser production

Agrochemical corporation Azot has proposed through the government the creation of a state holding for fertiliser production based on assets from SIBUR-Minudobrenya and TogliattiAzot. However, there has been negative reaction to the proposal in that it would create a very strong player in the market and make it very difficult for smaller companies to compete. Azot wants to buy 100% of SIBUR-Minudobrenya and 90% of TogliattiAzot, besides other acquisitions. SIBUR-Holding has made it clear that fertilisers are not a core product for the group and that it would accept an offer at the right price. However, there seem to be a number of complex factors against Azot acquiring SIBUR-Minudobrenya, particularly as this proposed deal involve other companies over which SIBUR has no control.

Azot was formed in 2000 through Gazprom subsidiary and Mezhhregiongaz and Interkhimprom. The group has shares in a number of fertiliser producers and also organises gas supply to be delivered to fertiliser plants. A number of players have protested to the government that the creation of a state holding, including PhosAgro, Uralkhim and Salavatnefteorgsintez. The premise of the argument is that a state holding would have unfair advantages with regard to gas prices, foreign trade and investment, and would contravene the legislation on anti-monopoly law. Thus, it seems that there is little support for the concept of a state holding, and it has reached the stage where the government will need to reach some sort of decision.

Plastics

ABS-PET

Plastik at Uzlovaya, the sole producer of ABS in Russia and part of SIBUR-Holding, has started to see stocks in its warehouses decline after restarting production in April. Production is expected to restart in August, although full capacity is unlikely to be achieved. In the first six months Plastik, produced 2,870 tons of ABS which was 66% lower than in 2008. Demand is reported to be improving for ABS plastics after a weak start of the year, and imports are tending to dominate the market.

Demand for PET in Russia remains high; with the plants all running at full capacity. Imports of PET are arriving from Belarus and South Korea, but overall the import volumes are in decline as domestic producers increase their influence. Demand is expected to start to slow from late August as the main season comes to an end. Perhaps in expectation of a seasonal decline, the Senezh Polymer Plant has already reduced the price of PET to 50,000 roubles per ton which may stop imports growing whilst at the same time costs of production have come down. Both SIBUR-PETF and Polief are currently quoting the same price range.

The state committee of Bashkortostan, Polief and Energosource signed the cooperation agreement at the start of July for the creation of the Polief technopark. The industrial region is to provide space for up to 20 small

businesses, with the focus on polyester processing, and represents an important development for Polief's future expansion for PTA and PET.

Polimatiz-Alabuga

Russia's largest nonwoven fabric plant has been launched by Polymatiz in the Tatarstan's Alabuga special economic zone. Polimatiz originally intended to start the production of spunbond in the second quarter of 2008, but delayed completion due to adverse economic conditions. The company, a member of the Nizhnekamsk Industrial District association, is to produce a wide range of polymer products and auto components. The programme includes manufacturing polypropylene multifilament yarn, staple fibre, polymer fuel tanks and other materials. The total estimated investment into the Polimatiz plant is around \$81 million.

The processing output is projected to be 22,000 tpa of polymer products, based on product supplied by Nizhnekamskneftekhim. The new facility's capacity includes 3,500 tpa of staple viscose, 1,800 tpa of nonwovens, 560 sets of carpeting items for autos and 9,400 tpa of spun bond and melt blown. According to the government of Tatarstan, another 30 plants will be set up at Alabuga before 2012 providing customers for mainly Nizhnekamskneftekhim and to a lesser extent Kazanorgsintez. The 2-thousand-hectare area at Alabuga (or Elabuga in Russian) now houses a strong infrastructure for future production facilities.

Renova-Orgsintez-polysilicon project at Novocheboksarsk

Renova Orgsintez and the Chuvash administration have signed a memorandum regarding the proposed polysilicon project at Novocheboksarsk. The project is scheduled to start construction during the third quarter of 2009 and for completion in the fourth quarter of 2011. Output is to be export-oriented, mainly to southern Europe and Germany, with around 15% of sales targeted for the domestic market.

Usolyekhimprom to transfer from chemical commodities to polysilicon

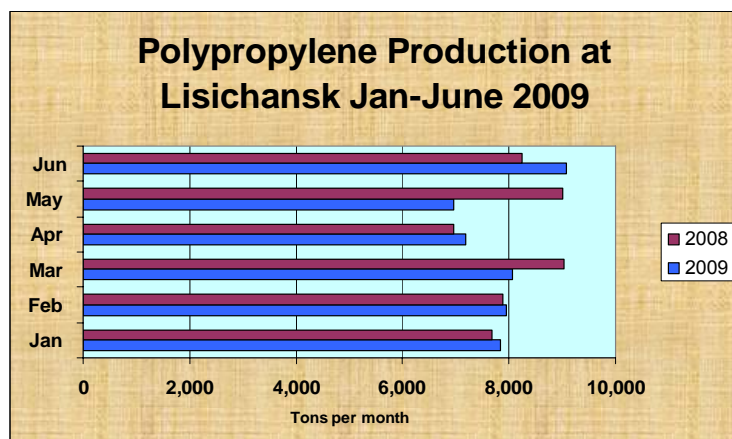
The Nitol group has decided to close three acetylene based units at the Usolyekhimprom plant in the Irkutsk region. This includes PVC, trichloroethylene and calcium carbide. According to Nitol, all three units have been unprofitable in recent times. Most of the trichloroethylene is exported to China, whilst 60% of the PVC production (emulsion grade) is sold on the Russian market and all of the calcium carbide. Nitol aims to focus more on the production of polysilicon in which it is investing around \$600 million into the construction of a 3,700 tpa plant.

Production of polysilicon is expected to start at Nitol Solar before the end of 2009, which will be expanded over the next few years. By 2015, Nitol hopes to have phased out base chemical production at Usolyekhimprom. Polysilicon production by 2015 should account for 85-90% of turnover from the current Usolyekhimprom site.

Ukraine

Linios-polypropylene production increases

Polypropylene production at Lisichansk totalled 9,078 tons in June, which was 30.5% higher than in May and 10% higher than in June 2008. Production in June has not been as high since December 2007, when the plant produced 9,079 tons. Linos at Lisichansk, owned in full by TNK-BP, has benefited from reduced imports of polypropylene into Ukraine following the devaluation of the currency. Overall for the first half of 2009, production was down 3.5% on the same period last year, totalling 47,064 tons. With production now increasing, the full year is expected to be higher for 2009 over 2008 which totalled 84,098 tons. Exports accounted for 27,480 tons in the first six months, taking 58% of total polypropylene production.



Ukrainian Chemical Production (unit-kilo tons)		
Product	Jan-Jun 09	Jan-Jun 08
Acetic Acid	36.5	78.7
Adipic Acid	0.0	16.7
Ammonia	1528.7	2723.2
Benzene (-95%)	85.7	132.8
Benzene (+95%)	26.4	86.0
Caprolactam	14.4	29.7
Caustic Soda	19.9	51.9
Ethylene	0.0	85.0
Formaldehyde	7.8	42.8
Methanol	45.2	90.9
Polyethylene	0.0	48.4
Polypropylene	47.1	48.8
Polystyrene	7.3	21.2
Polyvinyl Acetate	3.2	5.4
Propylene	0.0	37.8
Soda Ash	323.0	488.3
Titanium Dioxide	41.0	70.6
Toluene	1.8	3.5

remainder of 2009.

Benzene production drops in Ukraine in Jan-Jun 2009

In the first half of 2009, benzene production in Ukraine was down 45% against 2008 and totalled 112,700 tons. Coal based benzene fell 39% to 108,200 tons in the first half of 2009, with the Alchevsk Coke-Chemical Plant reducing output by 23% to 18,300 tons, and the Yasinovsky Coke-Chemical Plant reducing output to 13,900 tons or 53% lower than last year. For oil based benzene, the continued stoppage at Karpatneftekhim has been a factor whilst the Kremenchug refinery produced only 4,600 tons against 27,600 tons in January-June 2008.

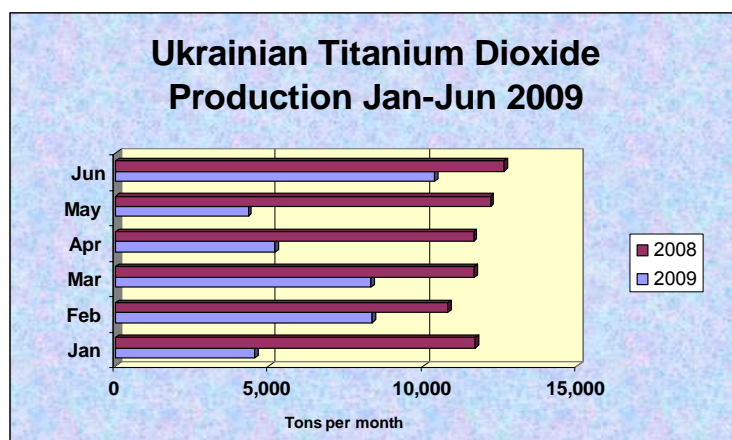
Lower production has been influenced heavily by lower export opportunities. Ukraine exported 71,200 tons of benzene in 2008, but only exported 6,200 tons in the first half of 2009. In the domestic market, Azot at Cherkassy did not buy benzene in the early part of 2009 due to the halt in caprolactam production. Azot at Severodonetsk and Rivneazot have both not required benzene purchases for adipic acid production as the units have been idle. Despite the poor first half year, the market position has shown some improvement and as a result benzene producers are optimistic of higher volumes for the

Stirol-polystyrene improvements

Stirol at Gorlovka has started the reconstruction of its unit for shock-resistant polystyrene. The reconstruction affects grades MIPS, HIPS-M, HIPS-E, SHIPS-M, SHIPS-E. The aim is to replace imports of shock resistant polystyrene, with the capacity of the unit designed to reach 12,500 tpa. The project should also reduce expenses on energy. Stirol is the sole producer of polystyrene in Ukraine and one of four producers of shock-resistant polystyrene in the CIS. In the first six months of 2009, the company produced 7,331 tons of polystyrene against 21,238 tons in the same period last year.

Ukrainian base chemicals

Ukrainian soda ash production fell 34% in the first half of the year against 2008, although Crimean Soda has been gradually increasing production in recent months. Lisichansk Soda stopped production in April for a maintenance shutdown and is yet to restart. From the beginning of 2009, soda ash production in Ukraine fell to 323,000 tons of which 289,300 tons was produced by Crimean Soda. In the first four months of the year, export volumes fell by 35% against 2008 to 114,600 tons. Crimean Soda shipped 108,700 tons, which was 23% down on last year. Exports were delivered to Russia (48%), Italy (17%) and Belarus (14%).



In the first six months of 2009, titanium dioxide production in Ukraine dropped 40% to 41,000 tons. Crimean Titan produced 32,904 tons, 39% down on 2008, and Sumykhimprom 8,719 tons, 50% down. Crimean Titan plans to increase production in July to 8,900 tons, which would be a 14% rise against July 2008. Crimean Titan produced 90,300 tons of titanium dioxide in 2008, 25% higher than in 2007. Capital investments in 2008 totalled 156.3 million hryvnias aimed at modernisation. Sumykhimprom restarted titanium dioxide production in June after halting operations at the end of April due to gas debts.

Despite the restart, the plant is only operating at around 30% of capacity. Debts owed by the company are estimated in the range of 280 million hryvnias, but notwithstanding Sumykhimprom aims to increase production of titanium dioxide over the next few months.

Azot Severodonetsk, methanol reduction in the first half of the year

In the first half of 2009, Azot reduced methanol production almost two fold to 41,600 tons. Aside weaker demand, the main factor influencing production has been the increased cost of natural gas from Russia and supply interruptions at the start of the year. Imports of methanol into Ukraine dropped 4% in the first half of the year, down to 22,000 tons. Overall, consumption declined 40% in the first six months of 2009. Russian methanol production is cheaper than at Severodonetsk, largely the result of lower gas prices and this issue has gone unnoticed. Azot together with other fertiliser producers in Ukraine have written to the government to question the gas price they pay and to request a fall in order to restore competitiveness.

At the start of the third quarter, gas prices for Ukraine were set at \$198 per thousand cubic metres, or 1544.4 hryvnia before VAT and transport costs. However, the average price paid by the chemical companies equates to \$310-315 per thousand cubic metres taking into account VAT and transport costs, against calculations made by the government of \$251-256. The chemical producers state that if the gas price is not brought down plants will be forced to close which could affect up to 300,000 people across the country. Whilst it may not be realistic to halt production, at the same time the government may feel some need to reduce the price of gas marginally.

Kalush Pipe Plant-started line for extruded polyethylene

Extruded lines for the production of polyethylene pipes were put into operation in June at the Kalush Pipe Plant, in west Ukraine. The diameter of the pipes produced at the new plant ranges from 20 mm to 400 mm. For the remainder of 2009, the company expects to produce 300 tons per month of pipes for usage in the gas industry. Later in 2009, Kalush Pipe Plant expects to start the second line for the production of PVC pipes for usage in water supply and drainage. Evrotrubplast will buy output from the line.

The original idea for creating the Kalush Pipe Plant appeared in 2008 due to demand from several sectors. Another factor was the availability of polyethylene from nearby Karpatneftekhim, and PVC which is expected to become available in the third quarter of 2010 with the start-up of the new plant. However, the recession that engulfed Ukraine last year led to delays in start-up of pipe production at Kalush by about six months. The Kalush Pipe Plant is part of Polyplastik, which unites several plants in Russia, Belarus and Ukraine. Despite adverse economic conditions in Ukraine, there is still good demand for pipes in the range of 110-160 mm for the construction industry.

Odessa Portside Plant –auction scheduled for September

Evrokhim and SIBUR-Holding are expected to participate in an auction for Odessa Portside Plant which is scheduled for 29 September 2009. The starting price of shares in Odessa Portside Plant is set at 4 billion hryvnias, which may be too high considering the current economic conditions. Other competing bidders are expected from Azot at Cherkassy, Dneprozot and Stirol.

Belarus

Belarussian Chemical Output (unit-kilo tons)		
<i>Fertilisers</i>	<i>Jan-Jun 09</i>	<i>Jan-Jun 08</i>
Potassium Fertilisers	1085.1	1739.4
Nitrogen Fertilisers	379.1	400.4
Phosphate Fertilisers	92.6	92.7
Ammonia	504.4	539.7
Sulphuric Acid	434.3	449.5
<i>Petrochemicals</i>	<i>Jan-Jun 09</i>	<i>Jan-Jun 08</i>
Ethylene	75.0	76.5
Benzene	53.0	53.8
Caprolactam	59.0	64.9
Phthalic Anhydride	16.1	8.8
Polyethylene	71.4	71.3
PET	103.1	116.5

Belarussian production

Chemical and petrochemical production in Belarus fell 26% in the first half of 2009 against last year by volume, but turnover rose 33.3%. Whilst large falls were noted for potassium fertilisers, the production of paints and varnishes has risen 6.1 times in comparison with 2008 and totalled 1.168 million tons. This increase is attributed to a new large production unit for solvents.

Production of resins and plastics in Belarus has fallen 10% in the first half year to 179,500 tons. Fibres and thread output totalled 86,500 tons which was down 23.6% over last year. Tyre output for cars was down 8.2% to 1.663 million pieces, lorry tyres were down 11.8% to 469,600 pieces and tractor tyres were down 7.9% to 254,400 pieces.

Mozyr refinery still keen on paraxylene project despite government cancellation

Despite cancelling the paraxylene project at Mozyr a few months ago, the project may have been given a lifeline. Belneftekhim has put forward plans for a civil-engineering design. As an alternative to the project, Gazprom has offered to supply paraxylene to Belarus from the Omsk refinery although this offer has not yet been accepted. The paraxylene project at Mozyr has risen in cost to around \$300 million since its inception, from which around \$10 million has already been outlaid. Naftan provides about 40% of current paraxylene requirements of Mogilevkhimvolokno.

Caucasus/Central Asia

Azeri-Uzbek chemical production, Jan-Jun 2009

Chemical production in Azerbaijan dropped in May and June after a reasonable performance in the period January to April. Overall, the production of chemicals in the first half of 2009 dropped 51% against the same period last year. Propylene production fell 43.8% to 8,100 tons and polyethylene dropped 42.9% to 14,800 tons. The production of rubber and plastic products fell by 13.3%. In the middle of July, the LDPE at Sumgait in Azerbaijan underwent a planned maintenance shutdown and is likely to restart in August. The shutdown has been taken partly in response to weak domestic demand

Turnover from chemical output in Uzbekistan increased 15.1% in the first half of 2009 against 2008. Nitrogen fertiliser production rose 7.7% to 490,700 tons and phosphate fertilisers rose 3% to 82,200 tons. Navoiyazot gas started work on a new unit for the production of phosphate ammonium nitrate, whilst Samarkandkhim has started to expand the production of nitro-potassium fertilisers.

Around \$6 million is required for investment into Vanadzor-Himprom in Armenia so that the plant can become profitable. At present, the company produces 105,000 tpa of ammonia, 20,000 tpa of calcium carbide and 20,000 tpa of melamine.

Sasol to invest in GTL plant in Uzbekistan

Sasol has signed a pact to develop a gas-to-liquids project in Uzbekistan that would produce about 1.3 million tpa of fuel. The agreement was signed with Uzbekneftegaz, and Petronas. The three companies will oversee the project as it moves into the feasibility phase. The company said the GTL facility would use its proprietary "slurry phase distillate" process to produce fuels including diesel, kerosene, naphtha and liquefied petroleum gas.

Kyrgyzstan-polysilicon project

A polysilicon plant was officially opened at Tash-Kumyr in Kyrgyzstan on 4 July, which has been opened under the ownership of the Tash-Kumyr Silicone Production Company. The plant will produce polysilicon for usage in the production of solar cell panels. A test launch was undertaken in May 2009 and a comparative analysis has shown that the quality of Kyrgyz polysilicon is equal to the quality of Tokuyama, Hemlock Semiconductors, Wacker, and MEMC. The main part of raw materials for the plant is mined at one of the Kyrgyz quartz deposits. The plant will produce 2,000 tpa of polysilicon, and around \$180-200 million in investments will be required to achieve full capacity utilisation which is expected by 2011. Work is being undertaken on developing the concept of a vertically integrated company, which would include the production of quartzites to end-use production in the technological chain. A JV is expected to be set up with the Russian polysilicon company Rusnanotech and other organisations.

Kazakh plastics

Penoplex started the production of extruded polystyrene foam in Kazakhstan in June. The plant has been established due to high demand in Central Asia and has a capacity of 150 cubic metres per month. In the first phase of operation one line has been started for the production of insulated materials from extruded polystyrene. Investments of around €20 million have been undertaken by Penoplex for the project, with raw materials provided by PG Prof (formerly known as Styrovit) which is part of the group.

The sole Kazakh producer of polystyrene Sat Operating Aktau» still faces problems with the delivery of raw materials for output. Negotiations with suppliers of styrene underway, but until resolved the polystyrene plant is running low rates of utilisation. In the first half of 2009, the Aktau plant produced only 160 tons of polystyrene which was 84% lower than in 2008. Due to lower production imports of polystyrene into Kazakhstan rose 85% in the first five months of 2009, with the main supplies coming from China, Russia and South Korea.

Relevant Currencies

(Czech crown. Kc. \$1 = 19.038. €1 = 26.943); (Hungarian Forint. Ft. \$1 = 200.735. €1 = 284.048; (Polish zloty. zl. \$3.1766. €1 = 4.4956); (Romanian New Lei. \$1 = 3.1637. €1 = 4.1939). (Croatian Kuna HRK. \$1 = 5.1959. €1 = 7.3534 (Ukrainian hryvnia. \$1 = 7.605. €1 = 10.763); (Rus rouble. \$1 = 31.529. €1 = 43.6145)

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