

# **EAST EUROPE & C. I. S CHEMNET**

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## ***Some of the main features in the June 2000 issue***

- BorsodChem is taking a 28.5% stake in TVK, the ostensible purpose of which is ensuring a stable supply of ethylene to Kazincbarcika. However, BorsodChem is also talking to MOL which has a 20% stake in TVK and it is feasible to speculate about the possibility of a large company being created that stretches from naphtha to PVC. BorsodChem stated that it will pay up to \$136 million for the 28.5% stake in TVK.
- On May 3 the Czech bank IPB bought a 75% stake in Spolana Neratovice from the Chemapol Group's bankruptcy administrator. IPB states that it will support the restructuring of Spolana, which includes the search for a strong strategic partner. IPB will continue with a planned capital hike in Spolana, which will allow the company to pay back Kc 700 million to both IPB and Komerční Banka and Kc 1.6 billion to the state bank Česka Inkašni.
- TVK's first quarter net profits rose vis-a-vis Q1 1999 despite a substantial increase in raw material prices. TVK posted a 60.1% rise in net sales to Ft 41.063 billion, which it attributed mainly to the increase in market prices for petrochemicals and polyolefins.
- The auction for the Romanian chlorine producer Chimcomplex has been restarted. The government postponed the period in which the ministry can keep the Chimcomplex shares for 60 days, in order that it could sell them and recover the company's debts to the state budget. BorsodChem has re-entered the picture as a potential buyer.
- Crude imports into Yugoslavia are expected to pick up as crude processing facilities, heavily damaged or destroyed in last year's Nato air strikes, are repaired. According to official statistics, April oil derivatives imports rose to 203,565 tons compared to 122,683 tons in March.
- On May 12, Rhodia bought the insolvent Latvian fibres company Tolaram Fibres (TF), located at Daugavpils for \$9 million. The purchase of TF was made in the second round of the company's auction. Neither of the two bidders in the first round offered the 5.6 million lats (\$9.15 million) required by Latvian Unibanka. Rhodia had previously announced its readiness to buy TF's production equipment, in addition to investing several million dollars to update polyamide fibre production.
- SIBUR-Neftekhim confirmed in May that it is to become Gazprom's subsidiary. Accordingly, a decision was made at the April 26 EGM to incorporate SIBUR and its subsidiary SIBUR-Neftekhim into Gazprom. As a result, Gazprom will control over 51% of SIBUR, the state will control 20%, and SIBUR's current managers 25%. Gazprom has been controlling SIBUR activities through affiliated organisations for the past two to three years. Gazprom's decision to buy a controlling stake in SIBUR-Neftekhim is believed to have been influenced by interests in the Nizhny Novgorod petrochemical complex.
- SIBUR has taken control of OAO "Styrol" and OAO "Butyl Alcohol" at Perm which were previously held under the Interkhimprom holding company. Both companies have been integrated with the Perm Gas Processing Plant to form OAO "Perm GPZ" AK SIBUR. This organisation has the capability to produce a wide range of products including propane-butane fractions, hexane-heptane fractions, 2-ethylhexanol, n-butanol, iso-butanol, styrene, ethylbenzene, toluene, 2-ethylhexanoic acid, etc.
- Omsk Kautschuk is reported to be about to restart its butadiene facilities which have remained idle for over five years. The theoretical capacity for butadiene stands at 135,000 tpa, consisting of two units. During the first quarter of 2000 Sibneft and other creditors Omskenergo and Titan invested 88 million roubles in the OAO "Omsk Kautschuk" plant.
- Procter & Gamble has been in discussions with the Donetsk region in eastern Ukraine concerning the production of detergents at the SEE "Donetsk" Plant. This project could lead to investment of up to 660 million hryvna. The advantages for a Western company producing detergents in the Donetsk region is that around 80% of the necessary raw materials are available locally.

# CENTRAL EUROPE

## Oil refining/feedstocks

Fluctuating crude prices are having variable effects on refiner margins, although Q2 does seem slightly more stable than Q1. Profitability was affected in the first quarter by the extreme hikes in crude pricing, and difficulties in passing on these increases to the consumer. The rise in feedstock prices and chemical product prices has filtered its way through to the domestic economies of Central Europe with subsequent rises in consumer prices. After softening in April crude prices surprisingly strengthened again in May with naphtha, gas oil and C<sub>4</sub> prices returning to extremely high levels. Even so, second quarter profitability is expected to be better for Central European petrochemical producers than the first quarter. Prices for petrochemicals are strong at present with no apparent downturn in sight. After falling to around \$20 per barrel in April crude prices rose again in May.

Indicating the dramatic feedstock inflation seen this year TVK's price of naphtha purchased from MOL in the first quarter this year was \$285 per ton against \$105 per ton in the same period in 1999. During Q1 2000 the average price of gas oil was \$243 per ton representing a 127% increase year on year. During Q1 2000 the price of naphtha increased continuously until about the middle of March, before starting to move downwards. In the period January-March 2000 TVK's raw material costs increased to Ft 24,227 million compared to Ft 9,740 million in the corresponding period in 1998. Total costs amounted to Ft 30,493 million in the first quarter against Ft 14,552 last year. However, as revenues benefited from strong prices TVK's gross profit exceeded last year's figure by 23%, totalling Ft 6,467 million.

<b>Unipetrol's Balance Sheet ('000 Kc)</b>		
(As of May 24 \$1 = Kc 39.9968, 1 euro = Kc 36.3894)		
	<b>Q1 2000</b>	<b>Q1 1999</b>
<b>TOTAL ASSETS</b>	<b>68,639,637</b>	<b>60,123,407</b>
<b>Fixed assets</b>	<b>46,163,729</b>	<b>42,380,650</b>
Intangible fixed assets	1,986,884	941,603
Tangible fixed assets	43,345,751	40,595,688
Financial investments	831,094	843,358
<b>Current assets</b>	<b>20,924,002</b>	<b>16,518,943</b>
Inventory	6,280,818	4,462,398
Long-term receivables	204,482	229,664
Short-term receivables	13,038,166	6,251,250
Financial assets	1,400,536	5,575,631
Revenues from merchandise	2,407,375	3,056,308
Cost of goods sold	2,047,433	2,713,531
<b>Sale margin</b>	<b>359,942</b>	<b>342,777</b>
Production	<b>12,481,895</b>	<b>6,597,635</b>
Production consumption	<b>10,835,505</b>	<b>5,126,245</b>
<b>Added value</b>	<b>2,006,331</b>	<b>1,814,167</b>
Personnel expenses	524,921	605,548
Depreciation of assets	715,564	625,766
Accounting for reserves and accruals to operating revenues	109,629	43,043
Addition to reserves and accruals to operating expenses	195,695	121,554
Other operating revenues	195,918	61,587
Other operating expenses	116,682	116,548
<b>Consolidated operating profit</b>	<b>759,016</b>	<b>449,382</b>
<b>Consolidated profit (loss)</b>	<b>693,705</b>	<b>1,520,973</b>

Following MOL's agreement to purchase 36.2% of Slovnaft there has been plenty of speculation about other possibilities for consolidation in the Central European oil refining industry. A recent suggestion that has come to the fore is that MOL could be on the throes of placing an offer for PKN. This may be a little premature, but nevertheless there is a prevailing feeling that in the next year or two oil companies in Central Europe will move towards a strategy of consolidation. This strategy is thought necessary in order to survive in a global market. MOL believes that there are good chances that a large scale Central European oil company, stretching from the Baltic to the Adriatic, will be set up. MOL argues that "if PKN does not decide on consolidation it will have to fight for the Polish market with neighbours". MOL may have designs on PKN, but it has said that it will not participate in the privatisation of Rafineria Gdanska being too far away from its area of activity.

Other prospective ideas for consolidation include a merger of the two protagonists OMV and MOL. Both are seeking to expand their interests in gasoline retailing in Central Europe, and until recently OMV had been favourite to purchase Slovnaft. OMV's current strategy is based on boosting net sales

in Hungary to over Ft 100 billion in 2000, partly by further expanding its retail network. Last year, OMV's Hungarian unit recorded net sales of Ft 80 billion, an increase of 40% over 1998, and pre-tax profit of Ft 697 million. OMV has a market share in Hungary of around 11%, which makes it the third largest gasoline retailer after market leader MOL and Royal Dutch/Shell.

In the Czech Republic Unipetrol posted a Kc 2.5 billion net profit last year, almost doubling its 1998 result. The oil refining and petrochemical group also announced a Kc 693.7 million net profit for the first quarter of 2000, down from Kc 1,520.97 in the same period in 1999. This was caused by the hikes in crude and the

time lag in passing on price increases, but the second quarter should be more profitable. Unipetrol's refining arm Ceska Rafinerska posted a first quarter pre-tax profit of Kc 276 million, surpassing expectations by Kc 30 million on revenues of Kc 9.5 billion. This was nearly doubled compared to the first quarter of 1999. Ceska Rafinerska states that it has already invested more than Kc 1 billion this year into new projects. Unipetrol subsidiary Benzina a.s. has approved a plan to restructure the company through a capital hike. The plan is to cut its Kc 2.1 billion basic capital by 80% to cover Kc 1.7 billion in losses accumulated over the past three years. Benzina is the largest retail gasoline network in the Czech Republic with more than 300 locations. Unipetrol holds a 78.2% stake in Benzina and another 13.4% stake through its subsidiary Chemopetrol a.s. Refineries Koramo and Paramo each hold a 4.2% stake.

The privatisation of the Paramo refinery has now moved into its second stage with bids coming from LUKoil, Unipetrol, and Chepramo. During the course of the second round, to be completed late June, the seven bidders will be able to find out more detailed information about the refinery. The par value of the stake is \$15 million. LUKoil was reportedly the lowest of bidders with just Kc 300 per share, or about Kc 280 million.

**Petrochemicals** BorsodChem has agreed to purchase a 28.5% stake in TVK from the investment funds Croesus and Templeton, and will become TVK's largest shareholder. The move is based on the goal of guaranteeing ethylene supply to the BorsodChem complex. It could be seen as yet another step in the increasing level of integration in the Central European petrochemical industry. BorsodChem stated on May 26 that it had taken up a six billion forint credit from two domestic banks "for general company financing purposes".

In eastern Germany Dow Chemical is in the process of buying the remaining 20% of BSL from German government, a deal which was planned to become effective from June 1. Dow's investment programme at BSL is approaching completion. This year a new acrylic acid plant has been started by Dow at Schkopau, in conjunction with its partner Celanese. BSL is also in the throes of testing a 15,000 tpa hydrogenated hydrocarbon resin unit for start-up in the near future.

TVK's revenues increased dramatically in the first three months of 2000, with product prices for petrochemicals rising 68% for ethylene, 98% for propylene, 43% for LDPE, 45.4% for HDPE, and 45.5% for polypropylene. Overall, revenues almost doubled against the same period last year.

TVK's sales Q1 2000 (Ft million)					
(As of May 24 \$1 = Ft 285.282, 1 euro = Ft 259.497)					
Category	Domestic	Export	Total Q1 00	Total Q1 99	Total Q1 98
<b>1. Petrochemicals</b>	<b>11,512</b>	<b>16,653</b>	<b>28,165</b>	<b>14,998</b>	<b>18,075</b>
Olefin	5,852	562	6,414	3,504	3,303
LDPE	2,032	3,608	5,640	2,931	3,906
HDPE	1,562	7,938	9,500	5,133	6,667
Polypropylene	2,066	4,545	6,611	3,430	4,199
<b>2. Plastics Processing</b>	<b>2,529</b>	<b>1,675</b>	<b>4,204</b>	<b>1,807</b>	<b>2,026</b>
Other	82	50	132	93	72
<b>Total</b>	<b>14,123</b>	<b>18,378</b>	<b>32,501</b>	<b>16,898</b>	<b>20,173</b>

As of 31 March 2000 the TVK group's consolidated total assets amounted to Ft 163,168 million, with Ft 102,537 million of long term assets and Ft 60,631 million of current assets. The 16.5% increase compared to 31 March 1999 resulted from mainly the capital expenditures of the last year. The PP IV (polypropylene) unit was started on 27 March 2000; the expansion of the cracker was activated on 15 July 1999 and the BOPP III (Biafol) unit was started on 27 August 1999. In addition, the fixed assets of Unterland AG increased by Ft 1,526 million to Ft 18,843 million. There has been restructuring in the long term assets of TVK Rt with the plastics' processing divisions operating from April 1 as limited liability companies.

There are reports that TVK has sold its stake in carbon black producer Columbian Tiszai Karbon Kft for \$20 million to its joint venture partner. Columbian, set up as a joint venture between TVK and US based Columbian Chemicals Co in 1992, has a registered capital of Ft 1.94 billion and TVK has a 40% stake.

TVK's capital expenditures in Q1 2000 were mainly determined by the roll-over costs from the strategic investments carried out in 1999, mainly involving the cost of the PP IV unit, amounting to Ft 3,689 million. Other important investments included the BOPP unit and the cracker.

TVK's first quarter net sales and profits rose vis-a-vis Q1 1999 despite a substantial increase in raw material prices. TVK posted a 60.1% rise in net sales to Ft 41.063 billion, which it attributed mainly to the increase in market prices for petrochemicals and polyolefins. The net income of TVK totalled Ft 3.175 billion in the first quarter, compared to Ft 2.921 billion in the same period in 1999. However, direct costs of sales rose by 68.9% to Ft 32.7 billion year-on-year due to the strong increase in the price of naphtha and gas oil. The average per ton price of naphtha and gas oil rose by 206% and 165% in the first quarter year-on-year,

respectively. Despite the increase in costs TVK's gross profit grew by 33% to Ft 8,371 billion. TVK enjoyed a 95.7% tax allowance last year and it states that it expects a similar allowance in 2000.

#### Financial Highlights of TVK Group in Q1 2000 (Ft Million)

Q1 2000	Q1 99	Q1 00
Sales	25,655	41,063
Operating profit	2,705	3,414
Profit Before Interest	2,567	3,634
Net Profit	2,921	3,175

In the first quarter this year TVK's cracker, with its expanded capacity, produced 85,300 tons of ethylene, 42,100 tons of propylene and 69,800 tons of by-products. As per normal most of the feedstocks were purchased from MOL and consisted of 217,000 tons of naphtha and 35,800 tons of gas oil. Ethylene capacity utilisation at Tiszaújváros was 95.3% compared to 115.4% in Q1 1999. (In Q1 1999 the utilisation ratio was calculated on the basis of 290,000 tpa capacity, while

from 1 January 2000 the calculation is based on the increased 360,000 tpa capacity).

#### TVK Olefin/Polyolefin Production- (unit-tons)

Product	Q1 2000	Q1 1999
Ethylene	85,300	82,500
Propylene	42,100	42,100
LDPE	25,400	26,000
HDPE	46,600	46,800
Polypropylene	49,800	33,300

Source : TVK

The production of the LDPE and HDPE plants ran below Q1 1999 levels (by 2% and 1% respectively). Polypropylene capacity has now been almost doubled with the start up of the new 140,000 tpa plant, and in the first quarter production increased by around 50% over last year. The primary reason why TVK's cracker capacity utilisation was below 100% for the first quarter was due to a fire which occurred at the cracker on January 1. This forced a two day stoppage in the production of ethylene and propylene, and also polyethylene. The damaged equipment needed

replacing which resulted in approximately Ft 129 million additional costs. The value of the production outage was estimated in the range of Ft 2 billion, the most part of which should be recoverable by the end of 2000.

In the first three months of the year, TVK purchased 9,300 tons of ethylene from Oriana at Kalush which was 14% higher than last year's volume. Oriana's ethylene production in 1999 totalled 58,700 tons compared to 135,500 tons in 1998. Although Oriana's position will probably remain very difficult until a new owner is found TVK is less dependent on ethylene deliveries from Kalush following last year's cracker expansion at Tiszaújváros. In the first quarter, TVK supplied BorsodChem with 22,600 tons of ethylene, measured against 17,100 tons in the first quarter in 1998. The purchase of a stake in TVK by BorsodChem should ensure that this product flow continues.

#### Polyolefins

LDPE production at Plock fell to 30,800 tons in the first quarter of 2000 against 40,900 tons in the same period last year. The reduction was caused by operating problems. Polypropylene production at Plock by contrast increased to 28,800 tons in the first quarter versus 27,900 tons. The lower production took place at a time of rising prices. For Central Europe the increase of average market dollar prices increased by 43% for LDPE, by 45% for HDPE and 46% for polypropylene year on year.

In the first quarter TVK's polymer plants produced 25,400 tons of LDPE, 46,600 tons of HDPE and 49,800 tons of polypropylene. The lower capacity utilisation figures versus last year (LDPE: 85%, HDPE 93.3%, and PP 84.5%) were largely the result of cracker outages which imposed limitations on monomer products. In spite of these feedstock constraints limiting production TVK was able to increase its sales in the first quarter of LDPE by 7.2%, HDPE by 11.4% and PP by 17.6% against the same period last year.

Apart from strong market demand in Europe the increase over Q1 1999 was partly influenced by last year's inventory build-up by TVK. This was in order to cover the shutdown period (for the cracker expansion) to take place in Q2 1999. By contrast, nearly all the material produced in this year's first quarter was delivered to consumers. The most important export destinations in terms of revenue were Germany 26%, Italy 14%, UK 18% and Austria 10%. The strength of polyolefin pricing, compared to a very weak period last year, meant that export sales' revenue increased from Ft 8,808 million to Ft 18,738 million.

#### PVC

BorsodChem is taking a 28.5% stake in TVK, the ostensible purpose of which is ensuring a stable supply of ethylene to Kazincbarcika. BorsodChem is also talking to MOL which has a 20% stake in TVK and it is feasible to speculate about the possibility of a large company being created stretching from naphtha to PVC. BorsodChem stated that it will pay up to \$136 million for the 28.5% stake in TVK.

On May 22, BorsodChem stated that it would pay between \$18.50 and \$19.20 per share for this stake in TVK from investment funds Croesus and Templeton, in addition to investment bank Deutsche Morgan Grenfell. Half of the stake would be paid in cash and the other half in its own shares, with part of the cash to be financed from loans. BorsodChem will issue 1,768,970 new shares valued at Ft 9,510 per share to pay for a 28.5% stake. The investment funds' Croesus and Templeton will be entitled to 755,265 and 890,744 new shares respectively in BorsodChem, while Morgan Grenfell will receive 122,961 new shares. In exchange, Croesus will give 1,510,530 TVK shares valued at Ft 7.183 billion to BorsodChem, while Templeton will give

1,781,488 TVK shares valued at Ft 8.471 billion. Morgan Grenfell will hand over 245,922 TVK shares to BorsodChem.

The new shares that BorsodChem will issue will give a combined stake of about 16% to Croesus and Templeton. This would boost the investment funds' total stake to about 25% in BorsodChem; Templeton already owns 9%. The largest single shareholder hitherto in BorsodChem was the European Bank for Reconstruction and Development, with a stake of slightly below 10%. BorsodChem, which will become the largest single shareholder of TVK after the transaction with a total stake of 29.8%, "does not plan to further boost its stake in TVK."

BorsodChem will hold an extraordinary general meeting on June 30 to approve the acquisition and the issue of new shares. Cash financing for the transaction would amount to about Ft 20 billion, of which Ft four or five billion would come from BorsodChem's own resources and the rest from new loans.

On May 3 the Czech bank IPB bought a 75% stake in Spolana a.s. at Neratovice from the Chemapol Group's bankruptcy administrator. Neither party disclosed the price but according to sources from Chemapol creditors, the bank paid Kc 1.5 billion for the stake. IPB states that it will support the restructuring of Spolana, including the search for a strong strategic partner. IPB will continue with a planned capital hike in Spolana, which will allow the company to pay back Kc 700 million to both IPB and Komerční Banka, and Kc 1.6 billion to the state bank Česká Inkašni. The remaining 25% in Spolana is reported to have been purchased by PV Brokers for more than Kc 500 million. PV has stated that the investment is short-term.

**Plastics** Plastics' converters in Central Europe have seen costs rise dramatically this year in line with high polymer prices. The cost of goods sold have risen roughly by about a third in the first quarter. Gross margins have been affected as a result, but there is expectation that this position will improve during the second quarter with price increases having been passed on to consumers.

### **Slovakia**

The Slovak government has offered incentives to the French company Plastic Omnium, which is considering building a production plant for plastic components for Volkswagen's new off-road vehicle. The incentives offered by the government include the duty free import of technology, exemption from charges for removal of land from the State Land Fund and a contribution from the Local Development Fund for land purchases exceeding Sk 10 million. In addition, the government pledged to support the creation of new jobs by contributing Sk 60,000 per job. These incentives are to be offered to other investors which invest over Sk 1 billion in Slovakia.

Even so, Plastic Omnium is currently deciding whether to build the plastic components plant in Slovakia or neighbouring Hungary. Hungary, by comparison, is offering Plastic Omnium a 10 year tax holiday to build in its Győr industrial zone. It is also adding investment and employment subsidies combined with an immediate land offer for a symbolic price in an effort to lure the company. Volkswagen is to begin production of the new vehicles at its Bratislava plant next year. The plastic components plant would employ 450 people and create another 500 jobs through sub-suppliers.

### **Czech Republic**

Plastics' processor Plastika VD Kromeriz increased sales in the first quarter by 63% to Kc 125.9 million. In the same period last year it reported a Kc 3 million loss. Around 60% of sales were derived from the sale of plastic keyboards and other components for computers, and about a fourth from the supply of car components. Around 80% of production was exported to Germany, France, the Netherlands and Slovakia. Sales were greatly enhanced by the company's acquisition over the past year of ISO 9001, QS 9000 and ISO 14001 certificates. This year, Plastika expects sales to be at least 70% higher than last year. The company estimates that its labour productivity will exceed Kc 2.2 million per employee.

### **Hungary**

In May TVK introduced a new technology for plastics recycling, and is planning to license the innovation through a franchise sales system. Approved by the European Patent Office, the process enables the transformation of mixed synthetic waste which could only be burnt or placed in dumps, to be recycled into industrial raw materials. Currently, 1,500 tpa of Syntumen are being produced at a TVK test facility, an amount that is expected to rise to 6,000 tpa by next year. Syntumen can be used in road construction and in general construction activities.

TVK's plastics' subsidiaries, which the company plans to sell, contributed Ft 4.2 billion to the group's total net sales in the first quarter this year. TVK created a spin-off of the internal plastics' processing divisions into subsidiaries as of 1 April 2000. Following the collapse of the Pannonplast deal the aim is to sell the units and the shares in plastics' processing subsidiaries. Until these goals are achieved TVK is closely monitoring the performance of plastic processing division.

<b>Central Europe-currencies May 24th 2000</b>			
<b>Country</b>	<b>Currency</b>	<b>\$1=</b>	<b>EURO =</b>
Czech Republic	Koruna	39.9968	36.3894
Hungary	Forint	285.282	259.497
Poland	Zloty	4.4850	4.0800
Slovakia	Koruna	47.1189	42.8930

Helioplast and Formplast Divisions decreased by 100-100 tons largely due to production of lighter, thinner packaging materials which accounted for a greater proportion in the product mix. In Q1 2000, the "spun-off" plastics processing units of TVK Rt contributed Ft 4,189 million to the total sales of TVK and Ft 3,897 million to the indirect cost of sales.

Leading Hungarian plastics' processor Pannonplast is already involved in recycling at its subsidiary Recyclen Kft. The company recycles 8,000 tpa of its own plastic waste a year, and also purchases roughly 3,000 tpa on the market. Pannonplast, which in the first part of the year was trying to buy TVK's plastics' units, achieved sales' revenues in Q1 2000 of Ft 5,033 million, 27% higher than in the same period in 1999. The group's injection moulding sector has shown the strongest growth both in terms of sales and capital expenditures. The group's gross profit for the first quarter amounted to Ft 1,659 million, an increase of 17% year on year.

Pannonplast committed Ft 1 billion to capital expenditures over the first three months of 2000. In the first quarter Pannonplast decided against the opportunity of acquiring the plastic processing divisions of TVK. After a "thorough and comprehensive financial, legal and business screening, Pannonplast used its option set for in the agreement and discontinued its interest in the acquisition since it found a discrepancy between the perceived market value and the offer price."

Apart from contracts with Philips in Hungary Pannonplast's injection moulding sector benefited from new business with Hewlett-Packard in the first quarter. At the end of last year, Moldin started to supply plastic components for Hewlett-Packard printers in addition to its business with Philips Monitor Manufacturing Hungary. The high first quarter level of raw material prices contributed to sales' growth as Pannonplast was able to partially pass on the plastic price increases. After eliminating intra-company transfers the export ratio in Q1 was 41.6%, or 10% higher than that in Q1 1999.

<b>Polish Chemical Output (unit kilo tons)</b>		
<i>Product</i>	<i>Jan-Mar 00</i>	<i>Jan-Mar 99</i>
LDPE	30.8	40.9
Polypropylene	28.8	27.9
PVC	70.6	69.7
Caustic Soda	108	89.8
Pesticides	10.2	9.6
Nitrogen Fertilisers	404	382
Phosphate Fertilisers	107.3	102.1
Synthetic Fibres	25.4	17.4

Pannonplast is attaching considerable importance to developing its injection moulding subsidiary Moldin. Moldin requires an investment amounting to Ft 1 billion, the first phase of which (Ft 600 million) was successfully completed during the first quarter.

A capital increase in the amount of Ft 514 million was effected at Pannonplast subsidiary in the first quarter this year to fund additional working capital

needed by increasing turnover. Pannonplast effected a capital increase of Ft 215 million at Unical., its Romanian subsidiary which manufacturing packaging products. The new production hall is expected to have been completed by the end of June. The capacity expansion is necessary to meet increasing demand.

At other Pannonplast subsidiaries, the development and installation of a waste recycling technology at Polifoam was completed. Also further efforts were made to develop Polifoam Polska Ltd in Poland. At the end of last year, the owners of Interagropak in Ukraine, effected a pro-rata capital increase of about Ft 80 million to support capacity expansion. The capacity enhancements continue in line with market demands.

**Company news** The Croatian pharmaceutical firm Pliva has recently increased its stake in the Czech pharmaceutical manufacturer Lachema from 66.56% to 92.83% for \$4.9.million. Pliva also acquired an option to purchase the remaining 1.64%. Acting through their Polish subsidiary, Pliva paid \$31.5 million for 92.83% of Lachema. The purchase is part of a growing trend of cross border mergers and acquisitions in Central Europe. The recent buyout of Slovnaft by MOL has signalled a new wave of merger and acquisition activity in Central Europe. The Polish press has reported recently that MOL is considering further expansion in the region, specifically citing PKN as a target. The Central European oil refining sector is also waiting for the Croatian government to give its approval to a pre-announced merger between Croatian refinery INA and MOL.

The Czech chemical sector, accounting for roughly 12% of Czech industry, recorded 1999 sales of Kc 192 billion, up 3.8% on 1998. The sector employs about 90,000 people, or 7.3% of the Czech workforce. Recent performance has been positive across a broad cross-section of the chemical industry. Sales by fibre producer Silon reached Kc 1.4 billion in 1999, up 1.2% against 1998, with net profits increasing by Kc 3.1 million to Kc 13.5 million. Chemical producer Bochemie posted a 1999 audited net profit of Kc 38.9 million,

up Kc 11.5 million against 1998. Multinational parent Bochemie Group reported consolidated sales of Kc 1.2 billion and an Kc 89 million preliminary profit. This trend looks set to continue. As AliaChem's main subsidiary Synthesia posted first quarter sales of nearly Kc 1.4 billion, up 23% on 1999. Operating profits were Kc 102.3 million, up Kc 24.3 million. Sales at aromatic and plasticizer producer Deza increased by more than 60% in the first quarter to Kc 993 million, attributed to a large jump in exports. Precheza, the Czech Republic's producer of titanium and ferric pigments, posted a 1999 audited net profit of Kc 107.9 million, up 41% on 1998. Sales amounted to Kc 1.6 billion, up 12% on 1998.

Spolchemie is negotiating to extend co-operation with US company Reichhold Chemicals after signing a long-term contract at the end of the last year. Reichhold is currently building a new \$1.5 million warehouse on Spolchemie's land in Usti nad Labem, scheduled for completion in August. The sales of Spolchemie grew 11% in the first four months of 2000 (vs 1999) to Kc 1 billion with exports growing by 27%.

## SOUTH EAST EUROPE

**Oil refining** Croatian oil company INA stated in late May that it was reducing its output due to difficulties in the purchase of crude oil. The problem of high oil prices has affected the company combined with Croatia being a regulated market. Strong dollar and rising oil prices, with all but fixed retail prices, created a huge net loss for the company totalling 1.56 billion kuna (\$184 million) in 1999. INA is starting an overhaul of its Sisak refinery, after which it will continue to refine only INA's own crude. The company's main refinery in Rijeka will continue to process foreign crude depending on purchase opportunities and the situation in the global market.

INA's management believes that it has little chance of improving the situation this year unless the government allows the company to price its products independently. INA will continue to make losses as long as there is administrative control of prices. The price of gasoline in Croatia is on average 25% lower than in neighbouring countries. INA's management recognises the need for a strategic partner which is likely to have strong production and need refining capabilities. However, MOL has neither and is a little too similar to INA. The government can either decide to stabilise the company first and then offer it for sale, or seek a partner that could help get it out of trouble. The position should become clearer by the end of September.

In Romania, the Rafo refinery at Onesti has signed a contract to receive around 200,000 tons of oil per month. Rafo suspended activity 14 months ago. The crude oil will be processed at Rafo, and the supplier will distribute the products. The first vessel with crude oil was expected to reach Constanta and shipped to the refinery by May 20. Prior to this date efforts were being made to revive the plant's facilities including steam pressure. The restart of the refinery should bring substantial income to the Onesti regional budget.

Also in Romania the State Ownership Fund (SOF) has announced that it will start a new privatisation process for Petromidia in the next few months. At present, documents are being drafted for the resumption of the privatisation process. The collapse last year of the take-over by the Turkish company Akmaya has delayed implementing a new tender process whilst Akmaya contested the issue. However, the Romanian Arbitration Court announced on 8 May that it rejected the Akmaya claims. This will allow the SOF to proceed with another tender.

Total crude imports into Yugoslavia for the January-April period stood at only 18,097 tons compared with 454,112 tons in the same period 1999. The January-April imports were worth \$1.72 million, sharply down on \$44.67 million in the same period last year. Imports rose in April rose to 16,226 tons from just 1,871 tons in March. Not surprisingly, these levels were still far below the 102,841 tons imported in April last year before an oil embargo was imposed on Yugoslavia.

Crude imports are expected to pick up as crude processing facilities, heavily damaged or destroyed in last year's Nato air strikes, are repaired. According to official statistics, April oil derivatives imports rose to 203,565 tons and were worth \$50.35 million, compared with 122,683 tons worth \$33.36 million in March. Although the oil embargo is still in place, industry sources and government officials have announced a rise in imports of crude and derivatives. These are likely to come from traditional suppliers such as Iraq, Russia and Syria. The view is that crude oil processing at Pancevo and Novy Sad will be restored to the pre-Nato air strike levels by the end of this year.

**Chlorine** The auction for the Chimcomplex shares taken over by the Ministry of Finance from the State Ownership Fund (SOF) was resumed on 28 April, one month after the failure of the previous auction. The government postponed the period in which the ministry can keep the Chimcomplex shares for 60 days, in order that it could sell them and recover the company's debts to the state budget. The potential buyer in the first auction was an chemical engineering company called Petron. However, the second bid could involve a partner of Chimcomplex, which could mean BorsodChem. BorsodChem wanted to buy the Chimcomplex shares, but the deal was suddenly stopped last year.

<b>South East Europe-currencies May 24th 2000</b>			
<b>Country</b>	<b>Currency</b>	<b>\$1=</b>	<b>EURO =</b>
Bulgaria	Lev	2.0690	1.8808
Croatia	Kunar	8.1500	7.4126
Macedonia	Dinar	59.6700	55.6400
Romania	Lei	20,510.0	18,665.0
Slovenia	Tolar	220.420	200.655
Yugoslavia	New Dinar	12.18	11.35

The offers for Chimcomplex were to be made during a 4 day period from 2-5 May. The minimum value of a share is 25,000 lei and the seller hopes to obtain 91.2 billion lei. The total value of 37 billion lei is lower than the first price at the auction set in April. The SOF has also approved the privatisation file of Verachim SA (formerly Giurgiu Chemical Combine). Only one letter of intent to buy the company has been submitted.

However, there are reported to be several companies interested in buying Verachim.

### **Fertilisers**

The reorganisation of the Romanian fertiliser producer Nitramonia Fagaras, which is scheduled to take place this year, will include the closure of several production units, the reduction of the number of employees by over 400 people, and paying off the budget debts. Nitramonia Fagaras may be able to recover in the 2000-2004 period by complying with all the measures stipulated in the reorganisation programme. However, in order for the company to become viable it has to acquire additional funds from the budget. According to the reorganisation programme, Nitramonia has to shut down 10 production facilities this year to reduce costs by 1.6 billion lei. In particular, Nitramonia has been forced to stop the production of ammonium nitrate until orders can cover a minimum of 60% of the capacity. In the methanol sector the MSK methanol and acetic acid plant was rescheduled to restart in mid May. Methanol is being produced in good volumes in Romania.

### **Fibres**

As an alternative to the acrylic fibre producer Melana at Savinesti being taken over by the Romanian national oil company Petrom, the SOF has suggested that the company be allowed to move into bankruptcy. The liquidation of Melana would (according to SOF) be a good solution as the debts would be paid and then follows the privatisation. As a previous example the fertiliser producer Doljchim at Craiova was made bankrupt, and its debts cleared. Later it was incorporated into Petrom and now receives gas at lower prices than its chief competitor Azomures.

The SOF has put out to sale the 70% share stock it owns at the polyamide fibre producer Polirom Roman through direct negotiation. In the last auction, which took place on 27 April, no investor was interested in purchasing the shares. The potential investors are to hand in the privatisation offers at the SOF by 3 July, after paying for a participation guarantee of 4.217 billion lei. Polirom has a share capital of 122.046 billion lei, divided into 3,417,300 shares with the nominal value of 25,000 lei.

## **BALTIC STATES**

<b>Baltic States-currencies May 24th 2000</b>			
<b>Country</b>	<b>Currency</b>	<b>\$1=</b>	<b>EURO =</b>
Estonia	Kroon	16.78	15.65
Latvia	Lats	0.60	0.56
Lithuania	Litas	4.00	3.73

Major efforts have been made in recent weeks to resolve the feedstock position in Lithuania. LUKoil has reportedly agreed with Williams to form a joint venture at Mazeiku Nafta, including the supply of 6 million tpa of crude from Russia. Earlier in May Williams had been in negotiations with Kazakh crude

suppliers regarding delivery to Mazeikiu Nafta, but was unable to reach agreement. The Kazakh view was that the idea of exporting such a large amount of crude oil to Lithuania is "unrealistic", leaving nothing available for export via the Ventspils oil terminal. The Lithuanian government has also been in negotiations with YUKOS over the sale of 10% in Mazeikiu Nafta. Although these talks could cease with LUKoil's involvement, there are doubts about the validity of the agreements between LUKoil and Williams. Moreover, there are even question marks over pledges of investment of up to \$400 million by Williams in Mazeiku Nafta.

On May 12, Rhodia bought the insolvent Latvian fibres company Tolaram Fibres (TF), located at Daugavpils, for \$9 million. TF was sold in the second round of the auction. Neither of the two bidders in the first round offered the 5.6 million lats (\$9.15 million) required by Latvian Unibanka. Rhodia had previously announced its readiness to buy TF's production equipment in addition to investing several million dollars to update polyamide fibre production.

## **COMMONWEALTH OF INDEPENDENT STATES**

### **Russia**

Russian aggregate chemical output looks set to beat last year's level due in part to the continuing benefits from devaluation, and in part to improved integration in the chemical industry and company performance. The rise of SIBUR is starting to have a tangible effect on operating rates at numerous chemical plants, in addition to promising investment into old and new projects. SIBUR has been in existence since 1995 but has only come to play an important role in the chemical sector in the past year. It now has established an



ownership or control position at Salavatnefteorgsintez, Tobolsk Petrochemical Combine, the styrene and OXO alcohol plants at Perm, Voronezhsintezkautschuk, etc.

SIBUR's strength stems from its control over the gas processing facilities for the petrochemical industry and the fact that it is part of Gazprom. Gazprom was for quite a long time the silent partner but there is now a growing amount of transparency over the relationship. The only real internal competition in Russia could at the moment come from LUKoil which has less of a widespread influence, but still runs petrochemical facilities at Saratov and Budyennovsk. With many of the low operating plants likely to be absorbed into SIBUR or LUKoil production levels are expected feasibly to continue increasing in the short term. Sibneft is also worth watching in the Omsk region.

In the period January-April this year Russian chemical production is estimated to have increased by 21.1% over January-April 1999, with output increasing in areas such as bulk polymers, mineral fertilisers, etc. The forecast for the year is placed at just 9%, but this takes into account an extremely strong second half of 1999 and suggestions of a slowdown later on this year. However, as the second half of the year approaches there seem to be no signs of a change in the market position and the 9% target for 2000 could be beaten.

**Oil refining** In the south Urals Orsknefteorgsintez is planning to invest around \$10 million in the modernisation of the refinery, including \$3.5 million on the catalytic reforming unit. Refining volumes have been on the increase at Orsk this year. In the Nizhniy Novgorod region, discussions have been taking place between LUKoil and Tatneft for increasing refining levels at Norsi. Norsi's performance follows a gradual improvement in 1999 when the company saw a profit recorded of 118.946 million roubles against a loss of 28.625 million roubles in 1998. In 1999 Norsi processed 4.215 million tons of crude and hopes to surpass this target this year.

Despite this positive performance bankruptcy has been initiated against the Norsi oil refinery. Its debt totalled 3.19 billion roubles including 1 billion roubles to budgetary and non-budgetary funds. The Federal Service of Financial Rehabilitation considers bankruptcy of Norsi to be the only way of its financial survival. The major stockholders in Norsi are Norsi Oil (38%), the Russian Fund of Federal Property (24.99%), Tatneft (6%), and individuals (22%).

One of the main reasons why Norsi has run into problems is because it has until now remained outside of the vertically integrated oil groups. General refining over-capacity in Russia and the plant's lack of affiliation with upstream producers has led to chronic crude oil supply shortages. The company's owners are hoping LUKoil will bail the company out of its financial difficulties by purchasing the state's stake in Norsi. LUKoil supplied the plant with 72% of its crude oil in 1999. LUKoil is still seen as the major bidder for Norsi's assets if they are sold off to pay the refinery's debts. However, it may see rival bids from SIBUR.

Other refineries where there has been an improvement in 2000 include Yaroslavlnefteorgsintez, which is owned by Slavneft, having processed 3.3 million tons in the period January-April 2000 representing a 23% increase over 1999. By contrast the Kinef refinery at Kirishi has witnessed a slight downturn this year. YUKOS refined a total of 5.7 million tons in the first quarter compared to 6.2 million tons in the first quarter last year.

Russian oil refiners are expected to move record volumes of fuel oil on to the European market this summer, seeking to cash in on high spot prices. Exports are set to soar in June and July to over three million tons per month from the Baltic and Black Sea ports. In 1999 fuel oil exports were in the order of 2.7-2.8 million for the same period. The increase is forecast due to high prices for exports, and the increased competitiveness of Russian product due to the rouble devaluation in 1998.

**Petrochemicals** The leading petrochemical producer in Russia Nizhnekamskneftekhim achieved output value in the first quarter this year of 4,608 million roubles, 2.3% higher than 1Q99. The cost of sales increased by 2.2% to 3,308.9 million roubles, with pre-tax profit at 1,335.3 million roubles, compared to 545.5 million roubles in the first quarter last year. The accounts' payable increased by 50.1% to 2787 million roubles, and accounts' receivable increased by 2.8% to 4,490 million roubles.

SIBUR-Neftekhim is in negotiations with ABB Lummus Global concerning modernisation of the Kstovo EP 300 cracker. SIBUR-Neftekhim also confirmed in May that it is to become Gazprom's subsidiary. Accordingly, a decision was made at the April 26 EGM to incorporate SIBUR and its subsidiary SIBUR-Neftekhim into Gazprom. As a result, Gazprom will control over 51% of SIBUR, the state will control 20%, and SIBUR's current managers 25%. Gazprom has been controlling SIBUR activities through affiliated organisations for the past two to three years. Gazprom's decision to buy a controlling stake in SIBUR-Neftekhim is believed to have been influenced by interests in the Nizhniy Novgorod petrochemical complex.

As reported in last month's issue at the end of April both LUKoil and SIBUR were in direct conflict over the future of the Neftekhim petrochemical facilities at Kstovo. The position has been changing in recent weeks

giving rise to the prospect of co-operation between the two companies. The working group formed by SIBUR and LUKoil to consider various scenarios has thrown up the sign that there could be scope for some sort of alliance. This promises much for the future health of the Kstovo complex, and for the chemical industry in the Nizhniy Novgorod region in general.

In the Irkutsk oblast of East Siberia Angarsknefteorgsintez sold 17,900 tons of ethylene in the first quarter this year (against 17,700 tons last year), delivered mostly to Sayanskkhimprom, and 5,800 tons of propylene (against 6,500 tons last year) delivered mostly to Usolyekhhimprom for the production of epichlorohydrin. Sayanskkhimprom will use its 58.198 million roubles retained profit for 1999 to cover losses from previous years. The company has not paid dividends since 1994 due to successive losses.

**Polyolefins** After a very good year for profits in 1999 Kazanorgsintez has announced plans to pay dividends of 150% of the value of preferred and common shares. From 1 billion roubles of pre-tax profit, approximately 28.5 million roubles will be directed for the dividend payment. In 1998 a dividend of 75% was paid of the nominal value of 1 rouble per share.

Russian Polyethylene Production (unit-kilo tons)			
Producer	Location	1999	1998
OAO "Kazanorgsintez"	Kazan	345.9	336.2
OAO "Ufaorgsintez"	Ufa	94.6	95.0
OOO "Stavropolen"	Budyennovsk	210.0	63.9
Other		152.4	99.3
Total		802.9	594.3

Polyolefin production in Russia remains strong. Surpassing 1999 levels for polyethylene production in Russia will depend a large extent on Chinese buying patterns. On the supply side Stavropolen (formerly Stavropolpolimer) at Budyennovsk could be expected to increase its operating rates. Other potential producers which could plausibly expand output include

Angarsknefteorgsintez and Salavatnefteorgsintez. The feedstock position is (as always) the key factor, and it does seem that the hydrocarbon suppliers are having more of a say in the running of chemical plants. If the complicated position at Tomsk can be resolved there is also the possibility for increasing polyethylene and polypropylene production.

In the markets OOO "Interpolikhim" is offering from its Moscow warehouse HDPE from Ufaorgsintez in the range of 23,000-23,200 roubles per ton. Further details: Irina Donova, OOO "Interpolikhim", Tel +7 095 916 11 23, 916 37 72, Fax +7 095 916 10 44, E-mail: ipolihim@msk.tsi.ru. Polypropylene from the Moscow refinery is quoted at between 21,000-21,500 roubles per ton. OOO is offering LDPE from Kazan between 21,000-23,300 roubles per ton. Further details: M Leontev, OOO< Tel +7 8432 932 734, Fax +7 8432 932 694, E-mail: polimer@tbit.ru.

Sovplastpererabotka is offering from its Moscow warehouse polystyrene produced by Styrol at Gorlovka in Ukraine at 28,000 roubles per ton. Further details: Olga Butskaya, Sovplastpererabotka, Tel +7 095 49 50 40, Fax +7 095 349 50 10, E-mail: sovplast@mtu-net.ru. Prices are increasing for polystyrene, reflective of international trends. In February Sovplastpererabotka was quoting expanded and general purpose polystyrene in the range 21,800-22,400 roubles and prices seem to have risen by about 25% since then. Domestic production of polystyrene in Russia is still insufficient meet domestic demand, with imports prevalent. Sovplastpererabotka is quoting polypropylene, produced at Ufa, at 18,700 roubles per ton.

**Olefin derivatives** SIBUR's influence in the Russian petrochemical industry continues to intensify at a rapid pace with the take-over of styrene and OXO alcohol plants at Perm. In May SIBUR took control of OAO "Styrol" and OAO "Butyl Alcohol" at Perm which were previously held under the Interkhimprom holding company. In September 1999, SIBUR decided that these plants were closely linked with the Perm Gas Processing Plant, which is part of SIBUR, and that efforts should be made to make to create a tightly organised chemical group.

From February this year onwards these structures started to take effect with the Perm Gas Processing Plant supplying OAO "Styrol" and OAO "Butyl Alcohol" with raw materials and started to become more involved in production. These plants have now been integrated into OAO "Perm GPZ" AK SIBUR. This organisation has the capability to produce a wide range of feedstocks and intermediates including propane-butane fractions, hexane-heptane fractions, 2-ethylhexanol, n-butanol, iso-butanol, styrene, ethylbenzene, toluene, 2-ethylhexanoic acid, etc.

Advantages have already been seen at OAO "Styrol" and OAO "Butyl Alcohol" with an increase in raw materials being made available and operating rates on the increase. Normal butanol production at OAO "Butyl Alcohol" has been pushed up this year, but probably the most important feature of this burgeoning integration has been the revival of styrene production at OAO "Styrol". Hardly any styrene monomer has been produced at Perm for the past two years and thus a restart would help to supplement production at Nizhnekamskneftekhim. Other chemical sites controlled by the SIBUR group in the Perm region include the Uralorgsintez complex where there are plans to invest \$20 million in the production of isoprene and MTBE.

OA "Perm GPZ" AK "SIBUR" is now offering 2-ethylhexanol produced at the Perm plant at 22,840 roubles per ton prior to VAT. Further details: Aleksey Nikolayev, Tel +7 3422 908 752, Fax +7 3422 941 168, E-mail: iriolova@perm-raid.ru. Other sources of OXO alcohols include traders Olmark which is quoting normal butanol and 2-ethylhexanol produced at Salavatnefteorgsintez at 12,100 and 21,600 roubles per ton respectively, and acetone from Ufaorgsintez at 12,600 roubles per ton. Further details: A Skrivan, OOO "Olmark", Tel +7 3472 230998, 225940, E-mail: uralsib@bashinform.ru.

### **PVC & Chlorine**

In East Siberia, Usolyekhimprom's production capacity is starting to see higher occupancy rates due to strong demand. Over the past few years the company has operated no more than around 50%, but due to increasing domestic demand, export demand from China, and the improved ability to buy feedstocks the company is seeing increased volumes of production. Since last year Usolyekhimprom has been paying off its debts stage by stage, and combined with the economic benefits of devaluation the company recorded a 23% recovery in output in 1999 over 1998.

### **CIS- currencies May 24th 2000**

Country	Currency	\$1=	EURO =
Azerbaijan	Manat	4403	4228.83
Belarus	Rouble	995,900	919,290
Kazakhstan	Tenge	142.28	132.68
Russia	Rouble	28.26	26.35
Ukraine	Hryvnia	5.52	5.15
Uzbekistan	Sum	750.00	699.38

The amount of barter sales done by Usolyekhimprom has been in sharp decline in the past two years. As much as 80% of total sales is estimated to be done through cash payment, partly through company policy and partly through the improved ability of consumers to pay. Usolyekhimprom is one of Russia's main suppliers of calcium carbide, metallic sodium, methyl cellulose, trichloroethylene, epichlorohydrin.

In the next two to three years Usolyekhimprom wants to reconstruct the production unit for metallic sodium, to build a unit for processing waste produced by the epichlorohydrin unit which will help the environmental standing of the company. Other major goals include the modernisation of the caustic soda and chlorine units, and the epoxy resin unit. In 2000 Usolyekhimprom expects no less than a 12-13% increase in chemical output over 1999.

The caustic soda producer Khimprom at Novocheboksarsk increased turnover in the first quarter this year to the value of 349,300 million roubles against 244,700 million roubles in the same period in 1999. Profitability increased in the first quarter by 22%, with prices increasing by 48.1%. Part of the profitability increase was attributable to the effects of the changes in energy pricing. Products which contributed to the company's growth included aniline, plasticizers, etc.

A new enterprise producing PVC packages for medical applications has recently been opened in Voronezh in south west Russia. The unit was co-financed by the Russian Ministries of Economy and Finance, and the local Association of Disposable Medical Supplies. The production lines were supplied from Germany, with the facility designed to produce 20 million PVC packages per annum. The new facility has created roughly 200 new jobs.

In the markets, PVC from Novomoskovsk is being quoted by Polyline at 20,500 roubles per ton. Further details: polyline@novgorod.ru. Traders EkHm is offering PVC from Sterlitamak in April at 21,000 roubles per ton, inclusive of VAT. Further details: Borchim, Tel + 7 3424 713 381, Fax +7 3424 963 776, E-mail: borchim@mail.ru. Russkaya Industriya Kompania is offering PVC at 21,000 roubles per ton. Further details: Igor Milnikov, Russkaya Industriya Kompania, Tel +7 39518 944 13, Fax +7 3951 53 25 26, E-mail: b383@mail.ru.

### **Aromatics & compounds**

Benzene production in Russia continues to be strong, both from the crackers and refineries. The production of benzene in 1999 was fuelled by the demand growth for derivatives such as ethylbenzene and caprolactam. The main producers of benzene were Nizhnekamskneftekhim, Omsk NPZ, Ufaneftkhim and Salavatnefteorgsintez. Of these main producers only Salavatnefteorgsintez recorded lower volumes in 1999 than in 1998. Amongst the traders Olmark is quoting orthoxylene produced at Ufaneftkhim at 11,500 roubles per ton. Further details: A Skrivan, OOO "Olmark", Tel +7 3472 230998, 225940, E-mail: uralsib@bashinform.ru.

In the first quarter this year South Korean imports of caprolactam from Russia totalled 14,363 tons against 9,476 tons in the same period last year. One of the main caprolactam producers Azot at Kemerovo, partly as a result of these exports, increased output value in the first quarter by 79.6% year-on-year to 531.451 million roubles.

### **Fertilisers & Methanol**

Global methanol supply has been very tight and there seems little prospect of change in the short term. The net result is that Russian methanol exporters are continuing to benefit from higher methanol prices after a very good year in 1999. The increase in methanol production last year over 1998 was driven mostly by export activity. The largest producer was Metrafrax at Gubakha, followed by Tomsk Petrochemical Combine. Higher methanol prices are probably

most relevant to Tomsk Petrochemical Combine as they can help to offset the costs of transport to the Russian border. European prices are now standing in the range of DM450 per ton.

Triboldi Group of Italy has decided to invest in its methanol joint venture in the Rostov oblast which will consist of the construction of Russia's first methanol sea terminal. Russia lost its two main export terminals in Ukraine and the Baltic States after the collapse of the USSR. Methanol will be shipped from the Novochoerkassk plant to the terminal on the Sea of Azov. The Novochoerkassk plant can produce around 14,000 tons of methanol per month of which it exports about a quarter through tolling arrangements co-ordinated with Gazprom. Technip is currently assessing modernisation plans for the Novochoerkassk plant which could increase capacity to 300,000 tpa.

The new terminal will be run by the joint venture Azovprodukt which includes Italian and Russian interest. Of the \$14.5 million overall project cost the Italian side will provide \$12.5 million. Terminal construction should be completed by September 2001.

In the fertiliser markets output of potassium fertilisers at Silvinit (Solikamsk, Perm region) and Uralkali (Berezniki, Perm region), Russia's only producers, amounted to 1.132 million tons first quarter. This represented an 11% increase on first quarter 1999. Uralalkali recently approved the financing of the construction of a new port at St Petersburg for the transshipment of fertilisers.

In the apatite concentrate sector Russia's main producer OAO "Apatit" in the Kola peninsula has increased production this year. However, deliveries of nepheline concentrate have been discontinued by OAO "Apatit" to its major customer Aluminy Severo-Zapada. In 1999, OAO "Apatit" produced 860,000 tons of nepheline concentrate, of which 800,000 tons were delivered to the Pikolevskoe organisation Glinozem, which is a unit belonging to Aluminy Severo-Zapada. Price has been the issue of conflict between the two sides. With the discontinuation of raw materials key units are likely to stop operating at Aluminy Severo-Zapada.

Russian and US negotiators have initialled a draft agreement on Russian exports of ammonium nitrate for the period between 2000 and 2004. This has prevented the introduction of an anti-dumping duty and will allow Russia to sell ammonium nitrate in the US at a minimum price of \$85 per ton. This year Russia will be allowed to sell up to 50,000 tons, which will rise to 100,000 tons in 2001, 110,000 tons in 2002, and 150,000 tons in 2003. In 1999 Russia exported 38,000 tons of ammonium nitrate to the US.

AO "Mineralniye Udobreniya" at Meluz in Bashkortostan produced 339,000 tons of ammonia in 1999 versus 343,900 tons in 1998, and 413,000 tons of urea in 1999 against 394,800 tons in 1998. Capacity utilisation for ammonia was 75% in 1999 and 92% for urea. Although production volumes were not greatly different from the year before the company managed to reverse the losses recorded in 1998 and register a net profit.

**C<sub>4</sub>/Synthetic rubber** In May ZAO "Novokuibyshevsk Petrochemical Combine" started up its unit for the production of para-tertiary butylated phenols which had been idle for several years due largely to a lack of finance. The restart of the unit has been enabled by Novokuibyshevsk Petrochemical Combine's inclusion in the Samara holding group Volgokhimprom. Para-tertiary butylated phenols have a wide range of applications, including the production of resins and paints, plasticizers, surfactants, etc.

The restart is estimated to increase turnover at Novokuibyshevsk Petrochemical Combine by approximately 20%. Orders have already been received not only from the domestic market, but also elsewhere in the CIS and other export destinations such as Germany and Brazil. ZAO "Novokuibyshevsk Petrochemical Combine" was created at the end of 1998 as the result of restructuring of the former Novokuibyshevsk Petrochemical Combine. The main shareholders in the new company are Volgopromgaz through its subsidiary Volgokhimprom.

Yaroslavlshina (Yaroslavl Tyre Plant) increased the volume of tyre production in the first quarter this year to 1,566 thousand tyres from 1,233 thousand tyres in the same period in 1999. The company's monthly average rate of growth is estimated at 6.8%. Yaroslavlshina is now the second largest manufacturer of tyres in Russia after Nizhnekamskshina.

Yaroslavlshina and Omskshina both entered the vertical structure of SIBUR in 1999 which has helped reduce the overall costs associated with raw materials, logistics, etc. Yaroslavlshina and Omskshina combined now control about a third of the domestic tyre market in Russia. Instead of competing against one another they are taking a joint marketing approach under the SIBUR mantlehold.

From 1 April, the SIBUR-SHINA holding company started supplying Omskshina with gas, and also the carbon black producer Omsktechnuglorod. Other priorities of SIBUR include the construction of polyethylene facilities and the production of gasoline and gas oil at the Ufaneftkhim refinery. SIBUR's

efforts to develop the vertical structure from raw materials to finished products include close ties with the Russian car plant Avtovaz.

SIBUR has integrated Tobolsk Petrochemical Combine into its subsidiary OAO "SIBUR-Tyumen" which includes ten gas processing plants in the Tyumen region of West Siberia. As a result of this integration Tobolsk Petrochemical Combine should be much better placed to guarantee raw materials. SIBUR plans to invest at Tobolsk into the construction of new synthetic rubber units and other products. In addition to this new structure the Tyumen region property fund intends sell 3.7% of Tobolsk Petrochemical Combine. Shares in Tobolsk Petrochemical Combine are considered to be very attractive for potential investors.

Nizhnekamskneftekhim has started the construction of a new 30,000 tpa halogenated butyl rubber plant for start-up in 2003-2004. The original butyl rubber plant at Nizhnekamsk was started in 1973 and produced about 60,000 tons last year. At present, Russia does not produce halogenated butyl rubber relying on imports which account for around 5-6% of total synthetic rubber consumption. In addition to Nizhnekamskneftekhim, Tobolsk Petrochemical Combine is planning a project for the production of halogenated butyl rubber.

The new arbitrary management of OAO "Omsk Kautschuk" recently announced that the company will return to full operating rates for synthetic rubber production, with also plans to start the production of polypropylene. Propylene capacity exists at Omsk Kautschuk so in theory this could be possible. The reasons behind the revival of Omsk Kautschuk are its gradual incorporation into the Sibneft oil holding group. Sibneft is following SIBUR's example of moving downstream into chemical intermediates and finished products

Omsk Kautschuk is about to restart its butadiene facilities which have remained idle for over five years. The theoretical capacity for butadiene stands at 135,000 tpa, consisting of two units. During the first quarter of 2000 Sibneft and other creditors Omskenergo and Titan invested 88 million roubles in Omsk Kautschuk plant. This investment has allowed important maintenance to be undertaken.

Feedstocks have been arriving in greater volume at the plant and Omsk Kautschuk produced roughly 2,000 tons of synthetic rubber in April. This could rise to 5,000 tons per month if sufficient feedstocks are received. The Omsk Governor has promised to render Omsk Kautschuk assistance to restructure its debts to regional budget, in addition to providing favourable taxation conditions.

**Detergents** Unilever has announced plans to strengthen its position on the Russian detergent market. The aim is to reduce prices in Russia and organise a major advertising campaign in an attempt to win back customers lost after the August 1998 crisis. As part of the effort, Unilever plans to bring back brands that were withdrawn from Russia's market after the crisis, invest in promoting new brands and present products in more attractive packaging under new names. Despite having a popular line of products in Russia, Unilever suffered a decline in sales after the crisis, said the company, which added that an expected 1999 rebound did not occur.

The production of detergents in Russia responded almost immediately to the August 1998 economic crisis with output increasing to fill the place of imports. Producers such as Pemos, Soda and Aist have since late 1998 experienced substantial increases in production. Detergent plants marketing international brands have seen by contrast a downturn in production, although there has been a gradual recovery since the middle of 1999.

## Ukraine

Due largely to the continued inertia surrounding the future of Oriana at Kalush Ukrainian petrochemical output declined sharply in 1999 against 1998, with ethylene production falling from 135,500 tons to 58,700 tons. Of the ethylene volume produced in 1999 31,400 tons was delivered to TVK in Hungary, with the remainder being used mostly for the production of VCM.

On the plus side polystyrene output increased at the Styrol plant at Gorlovka. Styrol is one of the most profitable chemical companies in Ukraine and recently started a new unit for the production of polyethylene films. Acetic acid and methanol production at Severodonetsk also improved marginally last year. Azot at Severodonetsk increased output by 41% over 1998. The chemical sector in Ukraine as a whole performed slightly better in 1999 against 1998 due to the good performance in the fertiliser sector, and increases recorded in the production of sulphuric acid, soda ash and titanium dioxide.

The main challenge for the petrochemical sector is for the Ukrainian parliament is to find a solution for Oriana and also Linos at Lisichansk. Should foreign investors be allowed to take charge at these plants there is good reason to believe that olefin production levels could recover rapidly. However, the process of securing foreign investment has been dragged back by internal politics and the complicated issue of debt

repayment for polyolefin plants constructed at Kalush and Lisichansk in the mid 1990s. Although domestic polymer output is lacklustre there was a substantial increase in plastic processing in 1999.

Indications for 2000 suggest little change so far. In the first quarter this year Ukraine refined 1.271 million tons of crude compared to 1.806 million tons in the same period in 1999. The downturn was caused by a lack of crude supply from Russia. Total capacity utilisation fell to 9.9%. Kazakhoil is buying a stake in the Kherson refinery which could help to improve crude flows, but Russian oil company Tatneft has sold its shares in Ukrainian company Ukratatnafta due to poor results last year. This will reduce the volume of crude supplied by Tatneft to Ukrainian refineries.

<b>Ukrainian Chemical Output (unit-kilo tons)</b>		
<i>Product</i>	<i>1999</i>	<i>1998</i>
Ethylene	58.7	135.5
Propylene	25.1	59.9
Benzene	46.1	53.1
VCM	46.8	88.7
PVC	0.4	11.6
Ammonia	4,514.6	3,983.9
Nitrogen Fertilisers	1,903.0	1,631.0
Phosphate Fertilisers	223.4	236.0
Potassium Fertilisers	13.1	12.5
Sulphuric Acid	1,211.0	1,088.0
Soda Ash	455.7	390.3
Caustic Soda	99.4	127.3
Titanium Dioxide	66.9	49.7
Methanol	77.1	59.9
Acetic Acid	47.1	36.0
Caprolactam	0.7	10.8
Chemical Fibres	22.8	24.5
Polyethylene	2.7	44.7
Polystyrene	23.8	10.1
Plant Protection Agents	5.2	5.8
Detergents	28.2	25.0
Synthetic Dyes	1.6	1.0
Paint materials	63.1	72.8
Carbon Black	54.2	68.4
<b>Source : NIITEKHIM, Cherkassy</b>		

A chief barrier to market development in Ukraine is cash liquidity, a very similar situation that faced Russia prior to the devaluation of the rouble in 1998. At present, there is a substantial amount of barter trade in the chemical industry, for example an estimated 82% of carbon black sales in Ukraine are done on a barter basis, 75% of glass fibre products, 65% of synthetic dyestuffs, and for 76% for the petrochemical industry as a whole.

On March 9 this year the Ukrainian Ministry of Industry and the Ministry of Agriculture launched a programme entitled "Ethanol", intended to accelerate progress in the chemical sector. The programme envisages widening the sphere of applications for ethanol, such as in motor fuels, and the creation of new production facilities for the petrochemical industry. Ultimately, this strategy can help towards reducing import levels of energy based products. In the petrochemical sector the Ministry of Industry has suggested the construction of production units for ETBE at Oriana and Linos; to produce ethylene at DneprAzot at Dneprodzerzhinsk, and butadiene and rubber as by-products.

In the detergent sector Procter & Gamble has been in discussions with the Donetsk region in eastern Ukraine

concerning the production of detergents at the SEE "Donetsk" Plant. This project could lead to investment of up to 660 million hryvna. The advantages of producing detergents in the Donetsk region is that around 80% of the necessary raw materials are available locally.

## Kazakhstan

In the period January-April 2000 the three Kazakh refineries (at Atyrau, Pavlodar and Shymkent) processed 2.22 million tons of crude, 42.9% more than in the same period last year. The management of the Atyrau Refinery has outlined a target to process over 2 million tons of oil in 2000. In the first quarter, the refinery processed a total of 575,000 tons of oil, 75,000 tons more than anticipated. The refinery currently processes about 190,000 tons of oil per month, a 90% increase over last year's average. Feedstock is supplied from the Mangyshlak, Tengiz and Martysinsk oil fields.

The majority owner of the Atyrau refinery Kazakhoil has asked refinery management to fast track the process of reconstruction at the plant. Feasibility studies for the \$450 million project have been completed and a group of Japanese investors has agreed to finance the reconstruction. However, limits on the government's ability to offer sovereign guarantees for such loans will delay the project until at least 2001, or until the state works out a deal on increasing its guarantee cap with the International Monetary Fund.

In the fertiliser sector Kazphosphate, which was founded by Israeli-Kazakh collaboration KazSabton, won a tender in May to acquire the property assets of the Novodzhambul Phosphor Plant. The initial asking price was KZT 3 billion but was reduced to KZT 421.5 million, the amount at which the enterprise was ultimately sold. The main issue is to resolve the tender question quickly as the process is affecting the ability of the Kazakh phosphate producers to sell and market material. The CIS market has declined over the past decade forcing exports to other destinations. However, of late strong competition from China has affected opportunities for Kazakh exporters. The government is currently looking at measures for supporting the phosphate industry in Kazakhstan. KazSabton was formed when Israel-based Sabton acquired the Tselinny Mining and Chemical Plant through a tender in April 1999. KazSabton has a wide range of industrial capacities; in addition to metal and mineral fertiliser production, the company also already has experience in gold production.