

# ***EAST Europe & C.I.S CHEMICALS BRIEFING***

CIREC, Edited/published by Andrew Sparshott, Tel +44 20 8669 5126, E-mail: [andrew@cirec.net](mailto:andrew@cirec.net)  
[www.cirec.net](http://www.cirec.net)

**ISSUE NUMBER: 111**

**1<sup>ST</sup> MARCH 2000**

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

- The oil refining companies in Central Europe are reporting good performance for 1999 on the back of strong oil prices, whilst by contrast the chemical companies in the region have thus far been largely reporting a downturn in profits or even losses. Chemical producers were faced by the rapidly fluctuating picture on feedstock costs and product prices failed to keep pace with these movements.
- The start-up operations of the TVK's fourth polypropylene unit in Hungary took place on February 24 and increases the demand for propylene in Hungary. TVK's capacity for polypropylene now stands at 280,000 tpa.
- LUKoil will start a large scale maintenance programme will start at the Neftochim refinery in Bulgaria in the near future which is expected to require a full shutdown for about 45 days. April 3 has been proposed for the shutdown, but confirmation is awaited. The maintenance programme will upgrade the quality of output aimed at switching to production of lead free gasoline in June this year, in line with the requirements of the Bulgarian government. LUKoil plans to spend \$70 million on the programme.
- In Romania the Radici Group of companies now owns almost 90% of the caprolactam and synthetic fibre produced Fibrex at Savinesti. Radici purchased 37.953% of share stock in Fibrex on January 31 from the Romanian investment fund SIF Moldova. Radici Nylon, a part of the group Radici, was officially registered as the main shareholder at Fibrex on January 26.
- Nizhnekamskneftekhim has taken a credit of \$20 million from Sberbank to support the expansion of the ethylene cracker at Nizhnekamsk. At the end last year Nizhnekamskneftekhim also reached agreement with the bank Ak Bars for co-operation until 2004. Ak Bars will invest in a number of projects at Nizhnekamsk, including one of the main objectives to increase ethylene capacity from 410,000 tpa to 500,000 tpa.
- In January 2000 Russia produced a total of 65,900 tons of synthetic rubber, 3.3% down on December but about 11% up on January 1999. Production has been on a downward slope since the early 1990s, but there are now a few tentative indications that the sector could see a sustained improvement.
- Procter & Gamble has started the production of Fairy washing liquid at Novomoskovsk at the Novomoskovskbitkhim (NBKH) chemical plant. The unit capacity for the production of Fairy is around 10,000 tpa., equating in current value terms at around \$500 million per annum. Sales will be targeted principally on the Russian domestic market, with exports also being sought in countries such as Ukraine and Kazakhstan. Imports of Fairy from Rakona in the Czech Republic, where Procter & Gamble, will be gradually phased out. The opening of the new unit will allow a reduction in costs for Procter & Gamble.
- Ukraine's government press service stated on February 18 that Russian company Tyumen Oil Company (TNK) is seeking to buy the Lisichansk oil refinery and Oriana. The Linos refinery at Lisichansk seems a more likely target for TNK rather than Oriana. In Russia TNK lacks processing capacity, despite owning the Ryazan refinery, and thus the acquisition of Linos would provide a useful outlet for crude production.
- Tatarstan is in talks to take a stake in a venture at the Aktau Plastics Plant in Kazakhstan for the production of polystyrene. Nizhnekamskneftekhim will be the major beneficiary and will supply styrene to Aktau. Tatarstan proposed that it restores the production of polystyrene at Aktau in exchange for a controlling packet of shares. Total polystyrene capacity at Aktau stands at 220,000 tpa, consisting of two trains, but initially only one of these units may be used. A contract could be signed in the next few weeks if the conditions can be agreed. It is planned that the joint venture will begin production four months after it has been set up. Raw materials for production will be supplied by Nizhnekamskneftekhim, which can produce up to 220,000 tpa of styrene.

## CENTRAL EUROPE

### **Oil refining & Feedstocks**

The oil refining companies in Central Europe are reporting good performance for 1999 on the back of strong oil prices, whilst by contrast the chemical companies in the region have thus far been largely reporting a downturn in profits or even losses. Chemical producers were faced by the rapidly fluctuating picture on feedstock costs and product prices failed to keep pace with these movements. In Hungary TVK Group's direct selling expenses rose by 20% in 1999 due to the increase of world market feedstock prices. The average naphtha price purchased from MOL was 54% higher and gas oil price was 37% higher in than in 1998.

MOL Rt's fourth quarter profit rose by 31%, with the rise in the price of crude boosting revenue from gasoline and oil product sales. Fourth quarter profit totalled Ft 23.4 billion compared with Ft 17.8 billion a year earlier. In the Czech Republic Unipetrol Holding posted a preliminary unconsolidated pre-tax profit of Kc 1.096 billion for 1999 compared to a 1998 loss of Kc 2.5 billion. The turnaround is partly attributed to the state owned company MERO beginning to repay its Kc 1.35 billion debt to Unipetrol. However, Ceske rafineska was the only Unipetrol subsidiary to show a profit in 1999 (Kc 1.3 billion), while Kaucuk, Chemopetrol and Benzina all posted losses. The Czech Republic imported 6.6 million tons of oil in 1999, down 13% against 1998, of which about 80% of imports came from Russia.

#### **Polish Chemical Output (unit kilo tons)**

Product	Jan-Dec 99	Jan-Dec 98
Plastics	940.2	891.7
PVC	259.4	265.6
LDPE	129.0	170.6
Caustic Soda	335.9	362.7
Sulphur	1,247.2	1,351.3
Pesticides	26.5	25.6
Lacquers	298.4	298.8
Detergents	297.8	334.5
Nitrogen Fert	1,224.5	1,399.2
Phosphate Fert	550.7	628.3
Syn Fibres	83.3	88.5
Syn Rubber	97.0	93.9
Oil Processed	16,784.0	16,039.0

In Poland, PKN's estimated net profit in 1999, calculated under International Accounting Standards (IAS), equalled around PLN 950 million. PKN's net profit in 1998 under IAS equalled about PLN 773 million which is around 23% lower compared to 1999.

PKN plans to raise PLN 1.03-1.54 billion through a public offering later this year of 20-30% shares in the company to help support the PLN 7.3 billion investment programme targeted for completion by 2005. In addition to modernising its network to prepare for Poland's liberalisation of its fuel market in 2001, PKN could be assessing acquisition targets. These could include Slovnaft, and the state owned storage operator Naftobazy. The Treasury, which floated 30% of PKN on domestic and foreign bourses last year, still owns 44% of

shares in the company.

Taking a 20% stake in Slovnaft would be important to PKN as it would be a way of securing against competitors in the southern part of Poland. Central Europe's fuel market suffers from oversupply and there are fears that MOL and OMV want Slovnaft to move into southern Poland's relatively untapped fuel market. In 1998, 23% of PKN's retail sales came from north and south western Poland, while 46% alone came from the south east.

The Slovak Treasury Ministry is due to select a strategic investor for Slovnaft around May or June. Initially, the Slovak parliament may approve a law in March allowing owners of Slovnaft to return a 10% stake to the state. The return of shares would remove an obstacle to Slovnaft's efforts at selling a stake in the company to a foreign investor. Slovintegra, Slovnaft's management-led majority owner, agreed last year to return 10% in Slovnaft to the Slovak government to compensate it for the company's original 1996 privatisation, considered to be below prevailing market prices for Slovnaft's shares.

Statoil has been in talks with the Polish Treasury Ministry about taking a strategic stake in the Gdanska refinery. If these talks are unsuccessful the Polish Treasury Ministry will seek to devise a new privatisation plan that would include selling some of the company's shares on the Warsaw Stock Exchange (WSE). Nafta Polska is anxious to see Gdanska privatised before the end of the year, in addition to the liberalisation of Poland's oil market.

Totalfina, the only West European company to express interest in buying the Paramo refinery in the Czech Republic, announced it will not participate in the tender for the refinery. However, there are reports that Yugraneft, a second Russian oil company after LUKoil, is interested in acquiring the nearly 71% state stake in the Paramo refinery.

According to Statoil Poland will start to receive gas from Norway via Germany in the near future. Poland has been seeking permission to receive gas from Norway for several years in order to have an alternative gas source Russian imports. Currently, 11 billion cubic metres of gas per annum used by Poland comes from Russia. Domestic supplies account for 4 billion cubic metres. Initially, Poland will buy 500 million cubic

metres from Norway. The contract was signed in May 1999 but a delivery route was only concluded recently.

**Olefins** After rejecting MOL's request for TVK board representation on January 27 it is not quite clear how the relationship between the two companies will develop from here. Last year MOL argued that it had bought into TVK to protect its business interests, but there was a consensus of opinion that suggested MOL had a broader agenda in mind. MOL's objectives still seem unclear and perhaps may pose an eventual challenge to the ownership position at Tiszaújváros. In principle, TVK could select other suppliers of naphtha and gas oil to avoid contact with MOL. However, MOL's prices are favourable, as are the logistics built up between the two companies. MOL and TVK recently signed a mutual supply contract under which MOL will supply TVK with 65,000 tpa of propylene to TVK until the end of 2002. TVK's total propylene demand is now 280,000 tpa taking into account the new polypropylene unit which has just started up.

TVK's direct sales (i.e., from Tiszaújváros) in 1999 amounted to Ft 83,016 million, of which 49% was domestic sales and 51% was export. Export sales were distributed almost entirely in Europe, particularly Germany (25%), Great Britain (20%) and Italy (15%). TVK's petrochemical business generated 89% of the sales' revenues in 1999, whilst the plastics' division generated only 10%. The plastics' division represented an even smaller part in the profits of the company. TVK has recently signed a preliminary contract on the sale of the plastics' business to Pannonplast.

<b>TVK's sales Q1-Q4 1999 (Ft million)</b>			
As of Feb 21 \$1 = Ft 260.180, 1 euro = Ft 258.303			
<i>Category</i>	<i>Domestic</i>	<i>Export</i>	<i>Total</i>
Petrochemicals	35,526	38,385	73,911
Olefin	14,404	2,139	16,543
LDPE	6,622	8,644	15,266
HDPE	7,198	18,887	26,085
Polypropylene	7,302	8,715	16,017
Plastics Processing	5,135	3,455	8,590
Other	430	85	515
Total	41,091	41,925	83,016

For the whole group, including subsidiaries in Austria and Romania, TVK's sales in 1999 amounted to Ft 93,536 million representing an 8% increase over 1998. As a consequence of rising prices for petrochemicals, sales in Q4 1999 exceeded Q4 1998 sales by more than Ft 10 billion, and by more than Ft 3 billion sales in Q3 1999. The reasons

for the increase in Q4 were due mainly to the rise in ethylene and propylene prices which in Forint value increased by 12% and 25% respectively. Also there were notable increases in Forint values in both domestic and export prices for LDPE, HDPE, and polypropylene.

The cracker expansion completed by TVK in the first half of 1999 has increased total ethylene capacity at Tiszaújváros to 350,000 tpa. TVK's feedstock consumption in 1999 consisted of 829,100 tons of naphtha and 64,600 tons of gas oil, comparing respectively against 827,000 and 170,000 tons in 1998.

The first half of last year saw a fall in olefin production whilst the expansion was being undertaken. Production amounted to 115,600 tons in the period January-June 1999 compared to 153,900 tons in 1998. With the new capacity operational the second half of the year saw an increase in production to 184,400 tons compared to 156,500 tons year on year. As a result of the downtime in May and June total ethylene production for 1999 was down 3.4%. Capacity utilisation for the olefin plant was rated at 92.2% in 1999 against 107% in 1998.

<b>TVK Group's sales (Ft million)</b>		
	1998	1999
Sales	86,039	93,536
Operating profit	15,424	6,795
Net Profit	11,840	8,264

In 1999 TVK purchased 30,900 tons of ethylene from Oriana in Ukraine, a 34% fall against volumes in 1998. In Q4 Oriana supplied only 4,200 tons versus 14,700 tons in Q4 1998. For the whole of 1999 TVK supplied BorsodChem with 66,200 tons of ethylene, representing a 14% increase compared to the previous year. The lower volumes of ethylene from Oriana in 1999 meant that TVK's ethylene supply to BorsodChem could be met only by a temporary reduction in polyethylene output at Tiszaújváros.

TVK produced 154,400 tons of propylene in 1999 compared to 164,100 tons in 1998. This resulted in a downturn in polypropylene production by 6%. Despite an agreement with MOL for additional propylene supply TVK will have to import other sources in order to meet the full demand from the polypropylene units.

**Polyolefins** TVK's polyolefin production was lower in 1999 than in 1998 due to a reduction in monomer availability. Capacity utilisation rates consisted of LDPE: at 81.7%, HDPE at 84.3%, and polypropylene at 94.1%. The lower rates were caused by the longer than planned outage for the capacity upgrade in May and June, and the constraints on ethylene supplies from Kalush. The polyolefin plants at

Tiszaújváros produced 98,800 tons of LDPE, 160,100 tons of HDPE and 134,400 tons of polypropylene. These levels were lower by 10%, 14% and 6% respectively compared to 1998.

On the evidence of TVK's experience the rising price of feedstocks in 1999 kept profit margins very tight, although polyolefin prices followed these cost trends in the second half of the year. In 1999 TVK's average price of naphtha purchased from MOL was \$190 per ton which represented an increase of 39% compared to the \$136 per ton in 1998. In 1999 the average price of gas oil was \$147 per ton representing a 24% increase year on year. Largely as a result of these higher costs gross margins of polymers were 5-10% below compared to 1998.

### **Propylene derivatives**

Eastman Chemical signed the purchase contract in February with the Czech National Property Fund (FNM) to buy a majority in Chemicke zavody Sokolov a.s (CHZS). Eastman was expected to pay Kc 150 million for the state's 73.74% stake in the company. CHZS is expected to post losses of Kc 96.4 million for 1999, compared to losses of Kc 79.6 million in 1998.

The start-up operations of the TVK's fourth polypropylene unit took place on February 24 and increases the demand for propylene in Hungary. In the latter part of 1999 the existing three units had their supply of propylene reduced temporarily in order to create material for the test production of the new PP IV plant.

With Chemopetrol in the process of constructing a new polypropylene plant Central Europe should be well placed for polypropylene supply by 2002. Chemopetrol is investing Kc 1.6 billion in the construction of a new production unit with a capacity of 250,000 tpa. The unit will be finished in 2002 and will replace the existing plant capacity of 130,000 tpa. The equipment will be supplied by Foster Wheeler. The project is a part of Chemopetrol's large-scale investment programme, which will require a total of Kc 9.2 billion. Apart from the new polypropylene unit, Chemopetrol is expanding its ethylene capacity and will build a new polyethylene unit. By 2002 the company will raise its polyethylene and polypropylene capacity to more than 500,000 tpa.

### **PVC**

Spolana a.s. at Neratovice has cut its basic capital to Kc 2.87 billion as part of a restructuring process after the National Property Fund withdrew shares with a nominal value of Kc 1.6 billion. This decreased the National Property Fund's stake in Spolana from 36.73% to 1.36%. The move was partially aimed at covering the Spolana's accumulated losses which exceed half of the company's share capital. Spolana's sales grew 3% in 1999 to over Kc 7 billion. Losses, however, amounted to Kc 320 million.

<b>BorsodChem's Product Income (Forints)</b>		
As of Feb 21 \$1 = Ft 260.180, 1 euro = Ft 258.303		
Product	Q1-Q4 98 Ft Million	Q1-Q4 99 Ft Million
PVC resin		
Domestic	5,754.2	5,695.7
Export	23,709.9	22,481.0
Subtotal	29,464.1	28,176.7
PVC compounds		
Domestic	2,259.7	2,109.2
Export	3,052.2	2,788.4
Subtotal	5,311.9	4,897.6
MDI products		
Domestic	233.3	124.2
Export	12,268.9	14,363.3
Subtotal	12,502.2	14,487.5
Caustic soda		
Domestic	2,518.5	2,479.3
Export	2,124.2	2,120.6
Subtotal	4,642.7	4,599.9
Plastic semi-finished and finished products		
Domestic	3,795.7	3,760.2
Export	3,289.2	3,478.0
Subtotal	7,084.9	7,238.2
Other products		
Domestic	4,418.4	4,998.9
Export	6,776.3	8,006.5
Subtotal	11,194.7	13,005.4
Totals		
Domestic sales	18,979.8	19,167.5
Exports sales	51,220.7	53,237.8
Total sales	70,200.5	72,405.3

BorsodChem Rt has proposed raising its dividend 9.7% to keep the payment in line with inflation. BorsodChem's management board proposed paying a 1999 dividend of 170 Forint a share, up from 155 Forints for 1998. BorsodChem expects to benefit this year from higher prices for PVC and a slower increase in the price of ethylene. The world prices of chemical products are viewed as favourable for the company, and European sales of PVC products might increase significantly in the second half of 2000. Thus profits, which rose 39% in the fourth quarter last year, are expected to continue growing.

For 1999 overall, however, BorsodChem stated that profits fell 17.7% to Ft 8.3 billion, compared with Ft 10 billion in 1998. Fourth quarter profit totalled Ft 3.2 billion, compared with Ft 2.3 billion in 1998. BorsodChem recorded sales' revenues of Ft 72,405 million in 1999, consisting of Ft 19,167 million for domestic sales (26.5% of the total), and Ft 53,238 million for export sales (73.5% of the total). The operating profit was Ft 8,792 million.

The composition of BorsodChem's sales saw a noticeable change in 1999. PVC resin, PVC compounds and caustic soda decreased at the expense of MDI. The volume of sales of PVC resin decreased by 13.3%, whilst sales' revenues also dropped by 4.4% compared to 1998. There was a 19% increase in sales' revenues of MDI products

with a 15.9% increase in sales' volumes. This proportion indicates a small drop in the price of MDI products during the year.

In the second half of 1999 BorsodChem noted an increasing demand for plastic semi-finished and finished products, both in the domestic Hungarian market and in other parts of Central Europe. This resulted in a 2.2% increase in sales' revenues against 1998.

An increase in polystyrene production contributed to the higher sales' revenues for other products. In addition there was an increase in turnover from the sales of non-BorsodChem products sold by BorsodChem's trading subsidiaries.

In Q4 of 1999 BorsodChem achieved a Ft 3,180 million operating profit with Ft 22,626 million sales' revenues. This compares against an operating profit for the first three quarters of 1999 of Ft 5,612 million, 30% less than the same period last year. Fourth quarter revenues in 1999 comprised 31% of the year's total. The increases seen in the latter part of the year resulted largely from the rising price of petrochemical products from September onwards. In addition to higher PVC prices BorsodChem ran its production capacities at maximum rates. Higher occupancy was enabled by improved ethylene supplies. In Q4 the operating profit as a proportion of sales' revenues was over 14%, whilst the gross margin on PVC resin was more than 30%.

However, as a result of supply difficulties of ethylene and VCM during the course of the year, the production of VCM and PVC fell in comparison to 1998. BorsodChem managed to achieve a significant increase in MDI production. While BorsodChem's operating profits were 30% less during Q1-3 compared to 1998, by the end of the year the disparity was reduced to 13.1% with operating profits of Ft 8,792 million.

<b>BorsodChem's Production (unit-kilo tons)</b>			
<i>Period</i>	<i>MDI</i>	<i>PVC</i>	<i>VCM</i>
Jan-Dec 1999	41.8	233.8	185.4
Jan-Dec 1998	34.9	249.1	188.9

The increase in the direct costs of sales was caused by the rising price of major raw materials (ethylene, VCM, aniline, industrial salt) higher energy prices, and rising personnel related expenses. Also there were increasing costs of depreciation resulting from high levels of investment activity, although this item was offset to an extent by the

drop of PVC sales' volumes.

### **Synthetic rubber**

Increasing consumption of synthetic rubber in Central Europe is helping to stimulate interest in investment. In both the Czech Republic and Poland consumption has increased in successive years since 1993. In response Czech company Gumarenska Spolecnost (CGS) is expanding its technical rubber business. This includes subsidiary Rubena, located at Nachod and which is being renamed R-Tech, which is forming a joint venture with German silicon manufacturer Sico to produce silicon. Overall the CGS rubber division expects to report profits of Kc 50 million from sales of Kc 2000 million in 1999. Barum Continental Otrokovice, the largest Czech tyre manufacturer, plans to produce 13.72 million tyres in 2000. Revenues are forecast to reach Kc 15.783 billion and pre-tax profit Kc1.082 billion. Around 70% of revenues is expected to come from exports. Since 1993, when Barum became part of the Continental group, production has increased sharply.

The company plans to increase production further over the next few years and by 2003 expects to produce up to 18 million tyres, with a concomitant improvement in efficiency. The reason for the Continental Group to concentrate production in Otrokovice are principally low production costs, which are in the range of 30-50% lower than in West Europe. Wage costs in the last ten years have ranged between 12-13% of overall costs, and in the next fifteen to twenty years the company wants to keep them below 20%. By contrast, in West Europe wages can account for 40-60% of total costs.

<b>Central Europe-currencies Feb 21st 2000</b>			
<b>Country</b>	<b>Currency</b>	<b>\$1=</b>	<b>EURO =</b>
Czech Republic	Koruna	36.2860	36.7298
Hungary	Forint	260.180	258.303
Poland	Zloty	4.1130	4.05117
Slovakia	Koruna	42.9145	42.2791

In Poland, National Investment Fund (NIF) No. 9 Kwiatkowskiego has signed a deal to sell 33% of its shares in Stomil Belchatow to the Austrian company Semperit AG Holding. Semperit altogether plans to acquire 39.53% of votes in Stomil Belchatow from three different NIFs for PLN 21 per share. In order

complete the transaction, however, the Austrian company needs permission from the Securities and Stock Exchange Commission (KPWiG) to hold more than 50% of Belchatow shares. It must also announce a public tender offer for the remaining shares.

In 1998 Stomil Belchatow recorded a profit of PLN 5.63 million on revenues of PLN 77.3 million and decided to pay out 71% of the profit in dividends. In 1999 it is estimated to have lost PLN 1.7 million. Stomil Belchatow is the leader on the Polish market in the manufacture of conveyor belts. Semperit operates in the same sector.

**Plastics**

In the Czech Republic Technoplast a.s Chropyne, part of the AliaChem group, believes it turned an important corner last year, although it remained in the red for 1999 with a Kc 240 million loss, on sales of Kc 985 million. The plastics' producer expects sales to increase to Kc 1.12 billion in 2000.

TVK's capacity utilisation rates in 1999 increased at all four internal plastic processing units compared to 1998, the total utilisation figure reached 65.5% and represented a 13.2% increase against 1998. In 1999, TVK's Biafol Division produced 14,100 tons, Helioplast produced 11,300 tons, Flexofol produced 5,800 tons and Formplast produced 1,200 tons of finished product. However, the higher prices for polyolefins had an adverse on margins and consequently there was a 10-15% fall compared to 1998. These falling profits are thought to have contributed in TVK's decision to sell the division, including the Austrian company Unterland which it only acquired in December 1998. It also includes the Romanian subsidiary Plastico S.A.

Pannonplast has stated that it plans to sell new shares worth at least Ft 3.3 billion to raise cash to buy the plastics' division of TVK Rt. Pannonplast has called a shareholders' meeting for March 17 to vote on the sale of a minimum of 500,000 new shares and to disclose more details on its purchase of TVK's units announced in January this year. The sale aims to raise at least a third of the amount estimated that Pannonplast will pay TVK.

In 1999 the Pannonplast increased its sales' revenue by 17% to Ft 20.7 billion. However, similarly to other converters significant price increases for polyolefins and other raw material inputs in the second half of the year had a negative effect on the gross margin ratio. Even so Pannonplast's gross margins reached Ft 7 billion in 1999 surpassing the previous year's level by Ft 838 million (the gross margin had actually increased by 30% in 1998). The most important investments in subsidiaries involved Tu-Plast with Ft 780 million, Pannunion with Ft 650 million and Dexter with Ft 280 million. Also a capacity expansion is taking place at the subsidiary Moldin, which has started the production of plastic components for PC monitors for Philips at Szombathely.

Early in 1999 Pannonplast purchased a 50% stake in LG Pannon Plc from LG Chemical, and Pannonplast now holds 100% of the equity. The company's new name is Folmont plc. At the end of the year the company founded a joint venture Pannon Aldra Plastics Ltd with Alkor Draka S.A., a subsidiary of Solvay S.A. Pannon Aldra started new developments and projects focusing on efficiency gains, quality improvement and capacity expansion. The company produces mainly flexible PVC films used for electric insulation purposes and stationary products.

Other developments included the creation of Polifoam Polska which is acting as conduit for Pannonplast's business in Poland. Pannunion's Romanian subsidiary Unical has been placed under direct control of Pannonplast for the purpose of its further development. Unical is the market leader in Romania in the field of food packaging materials, margarine containers and cups for dairy products.

**Restructuring**

In the Czech Republic Chemopetrol a.s. has signed a Kc 1 billion contract, transferring its production of chemical gases at Litvinov to its strategic partner Air Products. Chemopetrol stated that the move avoids a Kc 400 million layout necessary to modernise the production of gases, which is no longer viewed as a company focus.

Chemopetrol has started cost cutting which sadly includes financial support to the Litvinov ice hockey team HC (Hockey Club) Chemopetrol. Despite Chemopetrol's Kc 25 million annual investment, which makes it the team's majority owner, the club is not making a profit. Chemopetrol wants to focus its full attention on producing chemicals. Such sponsorship is a legacy of the communist era, when state companies owned teams and built sports complexes as part of the sports culture.

Under a wage agreement signed in early February by Hungarian chemical industry trade unions and employers, wages will rise by 10% or more in the Hungarian chemical sector this year. For companies joining the collective agreement in the chemical sector, the minimum wage has also been set higher than the nationally required minimum of Ft 28,500 per month. For the period January-November 1999 gross wages last year rose 16.6% over the corresponding period of 1998. In 1999 domestic sales prices in the chemicals industry which rose 13.4% and export prices rose by 18.1%.

During the fourth quarter of last year BorsodChem sold its 40% stake in Borsod Kft to majority owner Rhone-Poulenc-Agro. The division produces agricultural chemicals, and posted a profit of Ft 61 million on revenues of Ft 2.7 billion in 1998. A profit of Ft 100 million is expected from the sale. The next sale by BorsodChem is anticipated in the first quarter of this year, involving Grafol Kft.

In southern Poland Zakłady Azotowe Kedzierzyn (ZAK) will receive PLN 3.2 million in financial aid from EFSAL funds, after the Cabinet Economic Committee (KERM) designated to carry out the motion to transfer

funds on February 17. The company started restructuring last year and hopes to finish 2000 having eliminated nearly all the losses. Around PLN 1.9 million of the aid will be spent on severance pay for 300 workers made redundant due to restructuring. Also, the company will receive PLN 1.3 million to modernise three units for the production of alcohols, glues and other products used in the production of paints.

## SOUTH EAST EUROPE

### **Oil refining**

A large scale maintenance programme will start at the Neftochim refinery in the near future which is expected to require a full shutdown for about 45 days. April 3 has been proposed for the shutdown, but confirmation is awaited. The maintenance programme will upgrade the quality of output aimed at switching to production of lead free gasoline in June this year, in line with the requirements of the Bulgarian government. LUKoil plans to spend \$70 million on the programme.

The reconstruction is not expected to cause fuel shortages in the domestic market as LUKoil intends to supply the necessary volumes with the help of LUKoil's refineries in Russia and Romania. The new owners, eager to make the plant a leading venture in East Europe, want to operate its facilities at their maximum capacity.

Some of Neftochim's outstanding environmental problems could receive some assistance under a the terms of \$50 million loan approved by the World Bank. These issues would be addressed through the Bulgarian Ministry of the Environment and Water Resources. LUKoil-Neftochim has already increased the octane content in the fuels produced at the refinery from 91 to 92. Since the start of this year LUKoil-Neftochim has worked exclusively with oil delivered by LUKoil from Russia. This year 6.5 million tons of crude oil is expected to be refined at Bourgas.

Rosbullneft, which delivers crude oil for LUKoil-Neftochim, will be transformed into a new company called LUKoil Transport. The decision was taken at a shareholders' general meeting at the start of the year. The major shareholder in the company will be LUKoil, having bought 58% of Neftochim in 1999. LUKoil Transport is to be registered in Bourgas.

### **South East Europe-currencies Feb 21st 2000**

Country	Currency	\$1=	EURO =
Bulgaria	Lev	1.9827	1.9832
Croatia	Kunar	7.8647	7.7475
Macedonia	Dinar	59.8500	58.9552
Romania	Lei	18700.0	18510.0
Slovenia	Tolar	204.355	201.310
Yugoslavia	New Dinar	11.8333	11.8589

In Romania there is still no sign of a new buyer coming forward to take over Petromidia. The State Ownership Fund (SOF) is still waiting for letters of intent for the sale of the company. The failed contract last year, involving the Turkish company Akmaya, has left other potential investors in doubt about the objectives of the SOF. The Rafo refinery at Onesti has failed to attract

interest in a third auction to sell the company. The main interest in the Romanian oil refining sector is focused on what happens to the national oil company Petrom. Both Arpechim and Petrobrazi refinery/petrochemical complexes are included in this organisation.

### **Energy**

The Romanian Ministry of Finance has authorised a guarantee of credit to Oltchim at Rimnicu Valcea worth \$50 million. The decision was taken on February 17 with the funds being important for financing part of the fuel and crude oil for the company's energy programme. Oltchim will make the payment in a foreign currency for its power consumption to the Romanian energy supplier Conel. Oltchim is one of the largest consumers of electricity in Romania, and constantly needs to insure that it has sufficient raw material resources to sustain exports worth over \$150 million per year.

### **PVC**

Polymeri in Croatia has changed its name to Dioki and may be privatised shortly, partly as the result of a new pro-Western coalition government. Dioki has recently made an annual contract with Petkim for 50,000 tons of VCM. This will mean that the spot tender business will fall to a range between 20,000-25,000 tpa.

Chimcomplex at Borzesti was recently admitted in the European Union (EU) RICOP programme designed to help negate the social impact of company restructuring. Chimcomplex joins other companies in the Bacau region, including Rafo and Carom Onesti, in the programme. The EU has allotted Euro100 million to support the restructuring of companies. Each company will get almost 35 million lei which will be used mainly for professional redeployment, modernising compensatory benefits, etc. The RICOP programme is still in its initial stages.

### **Detergents**

Hayat Kimya, a Turkish company, has completed construction of a new detergents' plant in Varna in Bulgaria. The plant is expected to be commissioned in the near future and is expected to employ 500 workers. The Turkish company has invested \$3 million in the plant thus far and plans to invest \$7 million before the end of this year. Modern Italian equipment for the production of washing

powders is to be installed. The capacity of the plant is 120,000 tpa of detergents. Market distribution is expected to focus on export sales, in addition to domestic sales.

### **Synthetic fibres**

The Radici Group of companies now owns almost 90% of the caprolactam and synthetic fibre produced Fibrex at Savinesti. Radici purchased 37.953% of share stock in Fibrex on January 31 from the Romanian investment fund SIF Moldova. Radici Nylon, a part of the group Radici, was officially registered as the main shareholder at Fibrex on January 26. Radici is reported to have paid around 200 billion lei in total for Fibrex

The transaction was a success for the investment fund SIF Moldova, which sold the shares at a price higher than the nominal price of 25,000 lei per share. From the buyer's perspective the acquisition of the additional shares from SIF Moldova means that Radici does not need to undertake any obligations to comply with large-scale investments in the plant. The almost inevitable downside part of the deal is that around 2,500 employees will lose their jobs, and this process of redundancy could start as early as this month.

Also at Savinesti there are suggestions that the acrylic fibre producer could be taken over by the national oil company Petrom. The rationale behind this idea is that Arpechim, which was integrated into Petrom last year, is one of the biggest creditors of Melana. Thus, if Melana and Arpechim were placed under the same umbrella, Petrom could solve the problem of debts and raw material supplies for Melana. Whilst Petrom is keen on the deal Arpechim is slightly less enthusiastic and negotiations are continuing.

### **Fertilisers**

The fertiliser producer Azochim at Savinesti in Romania is in the throes of restarting the nitrate installation which the company closed in May last year. Before restarting the company needs to obtain a license to put certain tanks into circulation again. Also payment of debts is required of the Romanian Railroads, and the settlement of the agreements with Romgaz and the National Company of Electric Energy. These debts are estimated in the range of 100 billion lei.

Azochim was taken over by Interagro Bucharest in 1997. The owner of Interagro managed to complete the investment at the nitrate installation, which functioned only until May. As a consequence, more than 200 out of 890 employees were made redundant in December.

## **COMMONWEALTH OF INDEPENDENT STATES**

### **Russia**

<b>Russian Chemical Production 2000 (unit-kilo tons)</b>		
<i>Product</i>	<i>Jan-00</i>	<i>Dec-99</i>
Ammonia	959.0	924.8
Caustic Soda	101.0	99.3
Soda Ash	151.0	194.8
Calcium Carbide	17.8	18.0
Ethylene	168.0	157.2
Benzene	79.6	70.9
Styrene	28.6	27.2
Phenol	13.2	12.4
Methanol	133.0	132.2
Nitrogen Fertilisers	506.0	486.1
Phosphate Fertilisers	192.0	204.5
Potassium Fertilisers	340.0	373.6
Synthetic Rubber	65.9	68.1
Polyethylene Films	11.6	11.3
Thermoplastic Pipes	3.5	2.5
Fibres	14.5	14.1
Plastics & Resins	207.0	206.4
Butanols	21.5	13.9
Agrochemicals	0.9	0.6
Plasticizers	7.1	8.1

Presidential elections are taking place in March which will be observed with interest. Foreign partners may be looking some encouragement on the investment climate but nothing is expected to change overnight. This year the chemical industry's emphasis will be on consolidating the gains made in 1999 and to continue improving the financial performance of individual companies and sectors. Even a modest improvement in aggregate production data this year would be viewed as a relative success.

The Russian Ministry of Economy estimates that aggregate chemical output in January 2000 was down 1% compared to January 1999. This fall is partly attributed to longer holidays to celebrate 2000, and also the fact that December 1999 was a much more active month than the previous December following the economic crisis erupting in August 1998. Despite the slight overall downturn in the first month of 2000 ethylene output continued upwards, as did a number of other products.

Some sectors are still counting the costs of the economic fall out two years ago. On the plus side for the Russian producers imports of pharmaceuticals into Russia last year are estimated

to have fallen by 25% against 1998. However, the financial losses in the Russian pharmaceutical market as a result of the 1998 economic crisis amounted to around \$800 million by the start of 2000. The worst period for the industry was from October 1998 until the middle of 1999.

Government concern over the lack of correlation between domestic and world oil prices may force Russian oil companies to reconsider their strategy on internal pricing. At present high world oil prices mean that oil companies are focusing too heavily on the export market at the expense of domestic needs. Certainly price



alignment would be welcomed by the outside world as it would at least help to provide more understanding of profit margins in Russia.

Russian oil exports fell by 2% in volume in 1999 from the previous year, but gained 37.4% in value, according to data from the state statistical committee. The second half of the year was particularly profitable due to the sharp rise in oil prices. Gas exports rose by 1% in volume, but plunged 15.9% in value. Russia exported 134.5 million tons of oil in 1999, earning revenues of \$14.1 billion.

The first half of the year yielded \$5.181 billion from 69.93 million tons of oil exports, and the second half yielded \$8.919 billion from 64.57 million tons. Gas sales abroad in 1999 amounted to 205.4 billion cubic metres and earned \$11.4 billion.

**Oil refining** The Russian Ministry of Fuel and Energy is putting pressure on the Russian oil companies to provide more product to the domestic refineries. This year the target of 182 million tons has been set for refining volumes which would represent a 12 million ton increase over 1999.

Amongst the major refineries TNK's refinery at Ryazan refinery processed around 12 million tons of crude in 1999. Ryazan processed 37% more last year than in 1998. The production of high octane gasoline increased by 188% at the refinery. In January the Ryazan refinery processed 923,000 tons of crude, a 2.9% increase over January 1999. OAO "Sibneft-Omsk NPZ" processed 12.5 million tons of crude in 1999, 5% down on 1998 volumes. However, increases were recorded in non-ethylated gasoline of 47%, benzene by 52.2%, orthoxylene by 26.2%, and paraxylene by 10.2%.

The board of directors of NORSI-oil decided in February to reject the plan to join LUKoil or any other oil company. The refinery at Kstovo faces a major problem in securing sufficient crude supplies, but the board did not think the solution lay in joining LUKoil. Other possibilities of co-operation suggested include Kazakhstan.

In Bashkortostan, AO "Ufaneftekhim" has drawn up an investment programme until 2005, designed to keep the company in the top ten refineries in Russia. This year Salavatnefteorgsintez plans to process 5.5 million tons at its refinery, consisting of 2 million tons of crude and 3.5 million tons of gas condensate. 2.5 million tons of raw materials will be supplied directly by SIBUR which is now managing the complex.

Salavatnefteorgsintez has been able to increase aggregate output from its petrochemical facilities since Gazprom became involved with the company in February 1998. One of the main advantages for Salavatnefteorgsintez is to gain access to gas condensate output from Karachaganak in northern Kazakhstan, which is processed at Orenburg. Salavatnefteorgsintez currently takes around 40% of the 16.3 million tpa of crude oil extracted by Bashneft (18% of Bashneft crude is exported and the remainder is sent to other Bashkortostan refineries). However, Bashneft's production is steadily declining and this explains why the relationship with SIBUR is so important for the future of Salavatnefteorgsintez.

**Petrochemicals** Russian ethylene output reached 168,000 tons in January, an increase of 10,800 tons over December 1999. This represents a positive start to the year. Achieving this figure as a monthly average over the full twelve months may be difficult in view of the technical limitations at several Russian crackers. But should it be done it would mean that Russian ethylene output would surpass 2 million tons, the first time since Russia became an independent state in 1991.

Currently the crackers at Ufa, Kazan and Nizhnekamsk are running close to their limits, whilst other plants such as Angarsk, Budyennovsk and Salavat have in the past twelve months been running at higher utilisation levels. Possibly the one plant where there could be a significant improvement in production is the Kstovo plant in the Nizhniy Novgorod region. In December 1999 the controlling company at Kstovo Neftekhim joined forces with Gazprom subsidiary SIBUR to create the company OAO "SIBUR-Neftekhim". At present, the complex is not really able to operate more than 50% of capacity due to a number of serious design problems. Despite ambitious plans for the complex SIBUR-Neftekhim is currently being held by disputes with the local authorities in Nizhniy Novgorod.

With SIBUR at the helm Salavatnefteorgsintez this year forecasts profits above 2 billion roubles which would allow the company to progress with its investment programme, the main features of which include the construction of a styrene monomer plant. A 14.78% stake in SIBUR is being auctioned by the federal property fund. The results of the auction will be announced March 31.

The largest chemical company in Russia Nizhnekamskneftekhim is having its debts of 250 million roubles restructured that will allow the company to repay over a period of ten years. Nizhnekamskneftekhim made a pre-tax profit of 2.7 billion roubles in 1999, a 730% increase on 1998. However, in the middle of last year the company faced a very difficult financial position with debts exceeding available funds. One of the major

creditors was Tatneft for naphtha supplies. Due to debt restructuring and improved domestic cash sales Nizhnekamskneftekhim has returned to a position of being able to pay Tatneft for feedstocks with liquid funds.

Nizhnekamskneftekhim has taken a credit of \$20 million from Sberbank to support the expansion of the ethylene cracker at Nizhnekamsk. At the end last year Nizhnekamskneftekhim also reached agreement with the bank Ak Bars for co-operation until 2004. Ak Bars will invest in a number of projects at the Nizhnekamsk complex, including one of the main objectives to increase ethylene capacity from 410,000 tpa to 500,000 tpa.

<b>Nizhnekamskneftekhim Ethylene Sales</b>			
<b>(unit-kilo tons)</b>			
<i>Customer</i>	<i>Location</i>	<i>1998</i>	<i>Q1 1999</i>
OA0 "Kaustik"	Sterlitamak	17,917	-
OA0 "Sintezkautschuk"	Togliatti	540	240
OA0 "Ufaorgsintez"	Ufa	3,183	-
OA0 "Kazanorgsintez"	Kazan	73,435	10,409
Others		12,443	-
Total		107,518	10,649

  

<b>Nizhnekamskneftekhim Propylene Sales</b>			
<b>(unit-kilo tons)</b>			
<i>Customer</i>	<i>Location</i>	<i>1998</i>	<i>Q1 1999</i>
Moscow NPZ	Moscow	3,540	1,402
OA0 "Volskhiy Orgsintez"	Volzhskiy	6,576	2,052
OA0 "Interkhimprom-Oxo"	Perm	13,553	11,256
OA0 "Kaustik"	Sterlitamak	12,266	4,617
OA0 "Ufaorgsintez"	Ufa	15,622	7,000
OA0 "Nitron"	Saratov	2,107	628
Others		11,937	3,008
Export		5,769	-
Total		71,370	29,963

Despite higher operating rates at crackers in Russia over the past year some derivative plants still find it difficult to secure monomer feedstocks. For instance, obtaining propylene for the Saratov petrochemical complex is a problem, although LUKoil is trying to improve the input of raw materials to the complex using propylene from the Stavropolpolimer complex. However, for the longer term there are doubts whether Stavropolpolimer will have enough surplus propylene to meet the demand of Saratovorgsintez. Captive consumption at Budyennovsk will become a feature should LUKoil's plans materialise for the construction of the outstanding 100,000 tpa polypropylene project. LUKoil in November signed an agreement with Gazprom on joint reconstruction of Stavropolpolimer's polypropylene unit. For the short term Saratovorgsintez was urgently seeking

2,000 tons of propylene in February in order to supply the acrylonitrile plant. Further details: Andrey Aristov, OOO "OPO oil", Tel +7 095 241 86 50, Fax +7 095 241 86 45, E-mail: aristov@ogo.ru.

### **Polyolefins**

Russian domestic polyolefin prices have been reasonably stable. Traders in abundance are offering product but some may struggle more than others to secure regular supplies. Amongst the sellers AngarskPoli-M is offering HDPE, produced at Angarsk, at a current price of 22,600 roubles per ton inclusive of VAT. Further details: Igor Chizhikov, AngarskPolimerPlast, Tel +7 3951 538452, Fax +7 3951 532785, E-mail: ig\_green@angarsk.ru. AngarskPoli-M is also offering polyethylene films in the range of 25,500-27,500 roubles per ton.

OOO "Interpolikhim" is offering from its Moscow warehouse HDPE from Ufaorgsintez in the range of 23,500-23,700 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.

Sovplastpererabotka is offering from its Moscow warehouse HDPE from Salavat at 23,800 roubles per ton and Novopolotsk (Belarus) at 24,500 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. Expanded and general purpose polystyrene is offered in the range 21,800-22,400 roubles, although the source has not been identified. Sovplastpererabotka is quoting polypropylene, produced at Ufa, at 18,700 roubles per ton.

Traders OOO "SKS" are offering HDPE produced at Salavatnefteorgsintez for 24,000 roubles per ton, and polypropylene from AOZT "Polypropylene" at 20,000 roubles per ton. Further details from Pavel Silantyev, Director, OOO "SKS", Tel/Fax +7 34763 33859, E-mail: sp@bashnet.ru. DOP is offered from Salavatnefteorgsintez at 21,900 roubles per ton and toluene at 9,380 roubles per ton, both prices inclusive of VAT.

Tekhnostroy 2000 is offering polypropylene on a regular basis produced at Tomsk Petrochemical Combine. Current prices stand at 20,000 roubles per ton. Further details: Y A Kulchitskiy, Tekhnostroy 2000, Tel +7 3822 21 03 94, Fax +7 3822 21 03 94, E-mail: duk@mail.tomsknet.ru. OOO "Econedra" can supply polypropylene currently at 22,500 roubles per ton, inclusive of VAT. From February 1 the price for benzene was set at 9,500 roubles per ton and propylene at 8,300 roubles per ton. Further details: Andrey Semdyanikin, OOO "Econedra", Tel +7 3951 52 80 89, E-mail: econedra@irmail.ru.

### **Films**

Uralkhimplast is offering large quantities of high quality PTFE electroinsulating film. Each roll is

packed in polyethylene film with a certificate of quality, by 20-50 kg in wooden boxes. The company can organise inspection, customs' formalities, dispatch and transport. The price being quoted is \$4.5 per kg, ex stock Moldova. Further details: Alexander Agafonov, Uralkhimplast, Tel +7 3435 23 54 81, Fax +7 3435 32 38 93, 32-32-22, E-mail: agafonov@tducp.unets.ru.

### **Propylene derivatives**

Russian 2-ethylhexanol supply is tightly balanced. One end user in the Urals is looking to buy up to 300 tons per month. The main problem is logistics, with freight costs of about \$110-\$120 per ton for shipping product from the Russian border. However, this cost is based on international shipments with domestic shipments quite often two to three times cheaper. A solution for this problem therefore could be that the importing company should find a transloading/pumping station as close to the border as it is possible. This will mean that the product will arrive at this destination and the importer will make the customs' clearance. The company's self-appointed agent will reload it into another wagon, or repump into another tank, and dispatch it to the final destination for processing.

Russian 2-ethylhexanol supplies from the Neftekhimik-Oxo plant at Perm, after delivery and VAT costs have been added, are currently around \$700 per ton. For imports to be competitive, even by taking the international freight costs into account, the Central/West European price to the Russian border would need to be in the range of \$450 per ton. To this must be added freight costs of \$110 per ton, import duty of 5%, and VAT of 20%. This would give a total price of \$672.5 per ton, about 4% down on the Russian price. The supplier may need to accept 50% advanced payment and 50% payment within 30-45 days after dispatch to interest buyers.

OOO PKF "Neftekhimprom" is able to deliver DOP from AO "Kamteks-Khimprom" at Perm and AO "Khimplast" at Novosibirsk in cisterns of 38 tons. The company also is offering phthalic anhydride from AO "Kamteks-Khimprom" from Perm. Butanols are offered at heavily discounted prices. Normal butanols are quoted currently at 12,500 roubles per ton, inclusive of VAT. To support production operations Neftekhimprom is seeking supplies of propylene. Further details: Yuri Danilov, OOO PKF "Neftekhimprom", Tel +7 3422 64 80 64, Fax +7 3422 64 80 12, E-mail: ensnab@perm.raid.ru.

Khimleks is offering from Salavatnefteorgsintez butanol at 8,900 roubles per ton, isobutanol at 8,100 roubles, ethylene glycol at 13,500 roubles, toluene at 10,300 roubles, DOP between 20,300-22,100 roubles per ton, etc. Further details: Khimleks, Tel/Fax +7 095 241 69 0, E-mail: galkin@ogo.ru.

Ashinsk Pyrolysis-Chemical Plant in the Chelyabinsk region produced 17,748 tons of ethyl acetate in 1999 (up 91% from 9,254 tons in 1998); 2,934 tons of butyl acetate (down 12.5% from 3,364 tons in 1998); and 1,282 tons of acetic acid (down 1.1% from 1,296 tons in 1998) in packed and bottled form. The average profit margin of the company increased from 8.5% in 1998 to 13.8% in 1999. Output of charcoal increased 119.3% from 3,800 tons in 1998 to 8,332 tons in 1999. This year Ashinsk Pyrolysis-Chemical Plant forecasts a 10% increase in turnover, with new facilities being introduced and 170 additional more jobs being created. The volume of export increased in 1999 substantially, and accounted for 80% of total production. The main producer of butyl acetate in Russia is Salavatnefteorgsintez which in 1999 produced 80,000 tons of which about 60% went for export.

On the domestic market VostSibProm is currently offering butyl acetate at 13,800 roubles per ton, inclusive of VAT. Further details: Semen Kiselev, VostSibProm, Tel +7 3951 561798, Fax +7 3951 561798, E-mail: vostsibprom@irmail.ru. Technostar is offering ethyl acetate at 14,300 roubles per ton. Further details: Mikhail Shevko, Technostar, Tel/fax +7 852 45 16 03, E-mail: chem@technostar.ru.

### **Synthetic rubber**

In January 2000 Russia produced a total of 65,900 tons of synthetic rubber, 3.3% down on December but about 11% up on January 1999. Production has been on a downward slope since the early 1990s, but there are now a few tentative indications that the sector could see a sustained improvement.

In 1999 Voronezhskintezkautschuk produced 156,933 tons of synthetic rubber against a pre-year plan of 151,980 tons. Exports amounted to 28,939 tons. Output in 1999 was 23.3% higher than in 1998. The after tax profit level for last year was 80.115 million roubles with the average profit margin being estimated at 11.3%. This year Voronezhskintezkautschuk plans to co-operate with SIBUR in the production of rubber for tyre production and products for light industry.

Yaroslavlshina (Yaroslavl Tyre Plant) plans to increase total output to 6.5 million tyres in 2000, a 62.4% increase over 1998. The company plans further expansions in production to 7.5-8.0 million tyres per annum by 2002-2003. Other tyre companies are also planning expansions which will help to push the internal demand for rubber. In 1999, Nizhnekamskshina produced 376,760 tyres for the automobile industry, measured against 96,200 in 1998 and 96,400 in both 1996 and 1997.

In the markets methylstyrene butadiene rubber produced by Kautschuk at Sterlitamak is being quoted by Khimeks at 17,900 roubles per ton. Further details: Aleksey V. Khorkov, Khimeks, Tel +7 3432 70 72 39, Fax +7 3432 70 72 41, E-mail: chimcom@emts.ru. Olmark is quoting polyisoprene at 24,500 roubles per ton from Ufa. Further details: A Skrivan, OOO "Olmark", Tel +7 3472 230998, 225940, E-mail: uralsib@bashinform.ru.

### **PVC & Chlorine**

OA O "Sayanskkhimprom" produced around 150,000 tons of PVC in 1999, compared to 110,000 tons in 1998. Located at Zima in the Irkutsk Oblast Sayanskkhimprom produced 36% of total Russian PVC production in 1999. In 2000 the company is aiming for a 10% increase over last year's levels. Although the plant capacity is 250,000 tpa utilisation is restricted by the amount of ethylene delivered from Angarsk, via the pipeline. One of the smaller PVC producers in Russia, OA O "Kapolaktam" has been under review whether to be placed under the control of the local arbitration court for the next ten years. This is the result of pressure from creditors. Kaprolaktam was first placed under the tutelage of the arbitration court in the Nizhniy Novgorod region on August 11, 1998.

Despite the increase in Russian caustic soda production in 1999 to over 1 million tons the performance by producers needs to be emphasised as a recovery rather than genuine growth. Although the fragmentation of the USSR makes direct comparisons unviable it is worth noting that in 1980 Soviet production of caustic soda was 2,754 tons. PVC also shares a similar story with Soviet output in 1980 at 398,000 tons compared to Russian output of 419,000 tons in 1999.

In the 1970s there was expansion of caustic facilities at Zima in the Irkutsk Oblast and Yavan which is part of Tajikistan. New plants were constructed at Sterlitamak, Volgograd and Kalush (Ukraine). The late 1970s were noted for seeing the first introduction of anode technology for chlorine production. Russia inherited most of the chlorine and caustic capacity when the Union fragmented into 15 constituent states. However, production levels have been constricted by old technology and equipment, in addition to the transition to market based conditions. The leading producers of caustic soda in Russia now consist of Kaustik at Volgograd, Khimprom at Volgograd, Kaustik at Sterlitamak, Sayanskkhimprom at Zima-2, and Khimprom at Novocheboksarsk. Khimprom at Novocheboksarsk increased output in nominal value by 79.3% over 1998 to 1.896 billion roubles. The company produced 68,200 tons of caustic soda, up 5.6%.

Amongst the chlorine producers a shareholders' meeting will be held by OA O "Kaustik" at Volgograd on March 25 to consider forming a new management. In the first half of 2000 Khimprom at Volgograd will restructure its energy supply arrangements by acquiring the local company VolgoGRES. Khimprom (Volgograd) is in talks with Volgogradenergo on the purchase of the VolgoGRES heat station. Khimprom can provide all its own steam requirements, and relies on VolgoGRES for about a third of its electricity needs. In the Irkutsk Oblast OA O "Sayanskkhimprom" will hold a meeting on April 29 to (amongst other things) assess the conversion of shares from 1,000 to 1.

The external management of OA O "Srednevolzhsky Zavod Khimikatsiy" has been extended for another year. This decision was taken by the arbitration court of the Samara Oblast following discussions with creditors. The external management was first introduced in the middle of 1998, but as yet has failed to restore the company's creditworthiness.

OA O "Srednevolzhsky Zavod Khimikatsiy" is one of the more recently established chlorine and caustic soda producers in Russia, having been set up on July 8, 1993. It is the legal successor of Chapayevsky Chemical Fertilisers Factory, founded in 1912. The main kinds of production and sales include plant protection agents, caustic soda and products of chlorine and chlororganic compound processing, PVC plasticizers and adhesives, etc.

In the markets Kaskad-Servis is offering PVC at 18,500 roubles per ton, caustic soda liquid at 1,700 roubles, methylene chloride at 8,000 roubles, trichloroethylene at 9,100 roubles, chloroparaffins at 26,700 roubles, etc. Further details: Kaskad-Servis, Tel +7 8442 68 80 26, Fax +7 8442 99 35 36, E-mail: kilfa@online.ru or akac@mail.ru. ZAO "Khimprom" in the Irkutsk Oblast is offering PVC in regular supplies from Kaustik at Sterlitamak at 19,900 roubles per ton and from Sayanskkhimprom at 22,900 roubles per ton. Further details: Aleksander Khalturin, ZAO "Khimprom", Tel/Fax + 7 3952 34 85 88, E-mail: halex@chemprom.ru.

### **Fertilisers**

A major issue for Russian fertiliser producers is the introduction by the US department of commerce, imposed on January 5, of an anti-dumping duty on Russian ammonium nitrate. The fertiliser group Interkhimprom has been in discussions with BASF for the supply of ammonia to Germany, in volumes of 186,000 tpa. Part of the export profits from Interkhimprom are planned to be invested in ammonia plant modernisation. The main objectives of the group are to follow the examples set in the advanced developed economies of tackling environmental problems. Not only does Interkhimprom see investment as important for upgrading production standards but also for preventing further harm to the environment.

The management of the producer OAO "Apatit" in the Murmansk region has asked the local authorities to provide assistance on the question of transportation and storage at the Murmansk port. Costs have risen in the past few months which has meant that OAO "Apatit" has not agreed a contract with the Murmansk port for 2000. For the time being the company has re-oriented trade away to other ports, in particular the Kandalakshiy port.

#### **CIS- currencies Feb 21st 2000**

<b>Country</b>	<b>Currency</b>	<b>\$1=</b>	<b>EURO =</b>
Azerbaijan	Manat	4750	4388.41
Belarus	Rouble	932,500	918,606
Kazakhstan	Tenge	140.070	137.983
Russia	Rouble	28.8256	28.4059
Ukraine	Hryvnia	5.6750	5.5985
Uzbekistan	Sum	650.000	640.315

Probably of even more concern is the rise in export duties imposed by the Russian government on mineral fertilisers. The government introduced a 15% duty on certain fertiliser exports in December, previously from 6.5%, which has had an immediate effect on sales. OAO "Apatit", for instance, has seen phosphate sales to Ukraine fall with imports being replaced by product from Morocco and Egypt. There

are concerns that these duties will have a negative impact on the Russian fertiliser industry.

OAO "Apatit" controls about 90% of the Russian and CIS market for phosphate raw materials and 20% of the European market. OAO "Apatit" has recently forged a contract with the Gomel chemical plant in Belarus to supply apatite concentrate. This will allow the Gomel plant to run at full capacity.

This year OAO Morskoy Port "St Petersburg" is planning to start construction of a new mineral fertiliser terminal, capable of transshipping 5 million tpa. The value of the project is estimated in the range of \$20-25 million. The project will take about 18 months for the first stage to be completed, and 3 years for the capacity of 5 million tpa to be reached.

#### **Aromatic derivatives**

In 1999 China imported 76,980 tons of caprolactam compared to 31,419 tons in 1998. Although Russian caprolactam exports to South Korea were down on the previous year the increase in product flows to China, and to a lesser extent Taiwan, meant that total exports increased to 144,000 tons. Apart from the improved global climate for the caprolactam market one of the major Russian producers Azot at Kemerovo shipped product to China under agreement with a European player. In the domestic fibres' market Khimvolokhno at Kemerovo reported an increase in sales' turnover in 1999 against 1998.

In the aniline sector Volzhskiy Orgsintez in the Volgograd region was the leading producer in 1999, followed by Khimprom at Novocheboksarsk. In February ZAO "TANDEM-2" was offering aniline produced by Volzhskiy Orgsintez at 14,400 roubles per ton. Other products included monoethylaniline at 22,000 roubles, sodium sulphate at 7,080 roubles, sodium cyanide at 9,600 roubles, butyl xanthate at 21,000 roubles, etc. All prices are inclusive of VAT. Further details: ZAO "Tandem-2", Tel +7 8442 34 81 44, E-mail: pressm@advent.avtlg.ru.

#### **Detergents**

Procter & Gamble has started the production of Fairy washing liquid at Novomoskovsk at the Novomoskovskbitkhim (NBKH) chemical plant. The unit capacity for the production of Fairy is around 10,000 tpa., equating in current value terms at around \$500 million per annum. Sales will be targeted principally on the Russian domestic market, with exports also being sought in countries such as Ukraine and Kazakhstan. Imports of Fairy from Rakona in the Czech Republic, where Procter & Gamble, will be gradually phased out. The opening of the new unit will allow a reduction in costs for Procter & Gamble.

#### **Ukraine**

According to the State Property Fund Ukraine will sell a 25% stake in the Odessa oil refinery through the stock exchange in March. A subsidiary of LUKoil purchased a 51.9% stake in the company last April. Kazakhil plans to purchase the Kherson refinery if the proposal is accepted by the Ukrainian parliament. The attraction of the Kherson refinery to Kazakhil is access to the Ukrainian market and also access for exporting oil products from a Black Sea port. According to the managing group of the Kherson NPZ Kazakhil plans to invest around \$60 million in the refinery over a period of three years. Kazakhil has managed the Kherson NPZ through the subsidiary Kaznafta since October last year. The refinery capacity stands at 7.1 million tpa although production in recent years has been nowhere near this level.

Ukraine's government press service stated on February 18 that Russian company Tyumen Oil Company (TNK) is seeking to buy the Lisichansk oil refinery and Oriana. "The Russian side is prepared to buy through a tender or to take management of the state stake in Oriana and Linos (Lisichansk refinery)," read the government press statement after Prime Minister Viktor Yushchenko met TNK officials. The Linos refinery at Lisichansk seems a more likely target for TNK rather than Oriana. In Russia TNK lacks processing

capacity, despite owning the Ryazan refinery, and thus the acquisition of Linos would provide a useful outlet for crude production. Linos has a processing capacity of 16 million tpa which hardly operated in 1999.

TNK is a subsidiary of the Russian conglomerate Alfa Group. The winner of the tenders for either company will face stiff investment conditions according to the State Property Fund. Accordingly, Alfa has agreed to take responsibility for all Linos's outstanding debts, and also would guarantee 4.6 million tpa of crude deliveries to the Lugansk region refinery. However, the government will assess other bids and above all strive to make the transaction more transparent than some of the other privatisation deals that have been done in Ukraine.

The pace of progress has been disappointingly slow in resolving the ownership position both at Lisichansk and Kalush. The Oriana picture seemed close to being settled in the autumn of last year with strong indications that an equity stake would be transferred to a new owner. This transfer was not completed which gave opportunity of "other would be suitors" to court friendship with Oriana.

The Ukrainian parliament is keen to find a new owner for Oriana that will take on the responsibility for the German debt incurred for the construction of the HDPE plant at Kalush in 1996. LUKoil has continued to make gestures of interest regarding the acquisition of Oriana, but the negotiations are difficult due to a multitude of factors. In particular, LUKoil does not seem interested about tackling the German debt issue. TNK has now added its name to potential buyers, although the company has no experience of olefins and derivatives. The British Consortium remain in negotiations with the Ukrainian parliament over a majority stake. The priority of the Ukrainian government is to avoid bankrupting both Linos and Oriana. The debts of Linos are estimated in the range of DM219 million, and Oriana in the range of DM250 million.

The Kalush complex seems to be operating sporadically with feedstocks being supplied by Kemokomplex, although some of the product is not moving. The HDPE facility is reported to have restarted, but surprisingly without the involvement of the technology licensor which raises the spectre of damage to the plant and a lack of back-up should things go wrong. Running the plant independently may downgrade the value for any potential buyer. Another issue that is putting pressure on the Ukrainian parliament to settle the ownership question is storage, with the tanks at Kalush full for a number of products. The main product problem is VCM which has exceeded the fixed product storage capacity, and is now overflowing into rail tank cars. Negotiations continue between the parliament and the potential buyers, but the sooner a decision can be reached the better for the complex.

## **Kazakhstan**

Tatarstan is in talks to take a stake in a venture at the Aktau Plastics Plant in Kazakhstan for the production of polystyrene. This decision follows a meeting between the two governments in the Kazakh capital on February 1. Nizhnekamskneftekhim will be the major beneficiary and will supply styrene to Aktau. Tatarstan proposed that it restores the production of polystyrene at Aktau in exchange for a controlling packet of shares. Restarting production is estimated to require in the range of \$5 million. Total polystyrene capacity at Aktau stands at 220,000 tpa, consisting of two trains, but initially only one of these units may be used. In the first place it would be necessary to buy catalysts, and undertake an assessment and general maintenance of the plant. A contract could be signed in the next few weeks if the conditions can be agreed. It is planned that the joint venture will begin production in four months after it has been set up. Raw materials for production will be supplied by Nizhnekamskneftekhim, which can produce up to 220,000 tpa of styrene. According to the agreement, the parties plan to decide the operational and legal aspects of the joint venture in February, including the share each company will have in the venture.

Kazakhstan's production of chemicals rose by 4.1% in 1999. According to the Ministry of Energy, Industry and Trade's (MEIT) data, the Novozhambyl Phosphorus Plant produced 4,880 tons of yellow phosphorus last year. Other major enterprises in the sector, the Khimprom (Taraz) and the Phosphor (Shymkent), were out of operation due to financial problems. The MEIT plans to establish a united chemical industrial system in Kazakhstan that will combine all of the major assets of the financially troubled chemical plants. The Ministry has forecast that restructuring the total chemical sector will require in the range of \$67.4 million.

MEIT has developed a quota system whereby Kazakhstan's refineries will this year be supplied with 9.9 million tons of oil, exceeding their actual demand by 400,000 tons. The Shymkentnefteorgsintez (ShNOS) refinery will receive 3.5 million tons, the Pavlodar Refinery will receive 3.3 million tons and the Atyrau Refinery with 3.1 million tons. The source noted that, in order to bolster Kazakhstan's rail export possibilities, an oil tank filling facility is being constructed at the Atasu rail station. The first stage of the facility will be operational in the first quarter of the current year. The option of shipping Kumkol crude to the Pavlodar refinery through the Gulak-Kurgan oil pumping stations is under consideration.

The Japanese Bank of International Co-operation has approved a \$450 million loan for a project to rebuild the Atyrau Oil Refinery in Kazakhstan. The reconstruction will boost capacity at the refinery to 4.5 million

tpa. In the first 11 months of 1999 the plant refined just over 1.7 million tons. The Kazakhstan national oil company, Kazakhoil, currently owns 86% of the refinery's shares.