

# CIREC

## MONTHLY NEWS

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

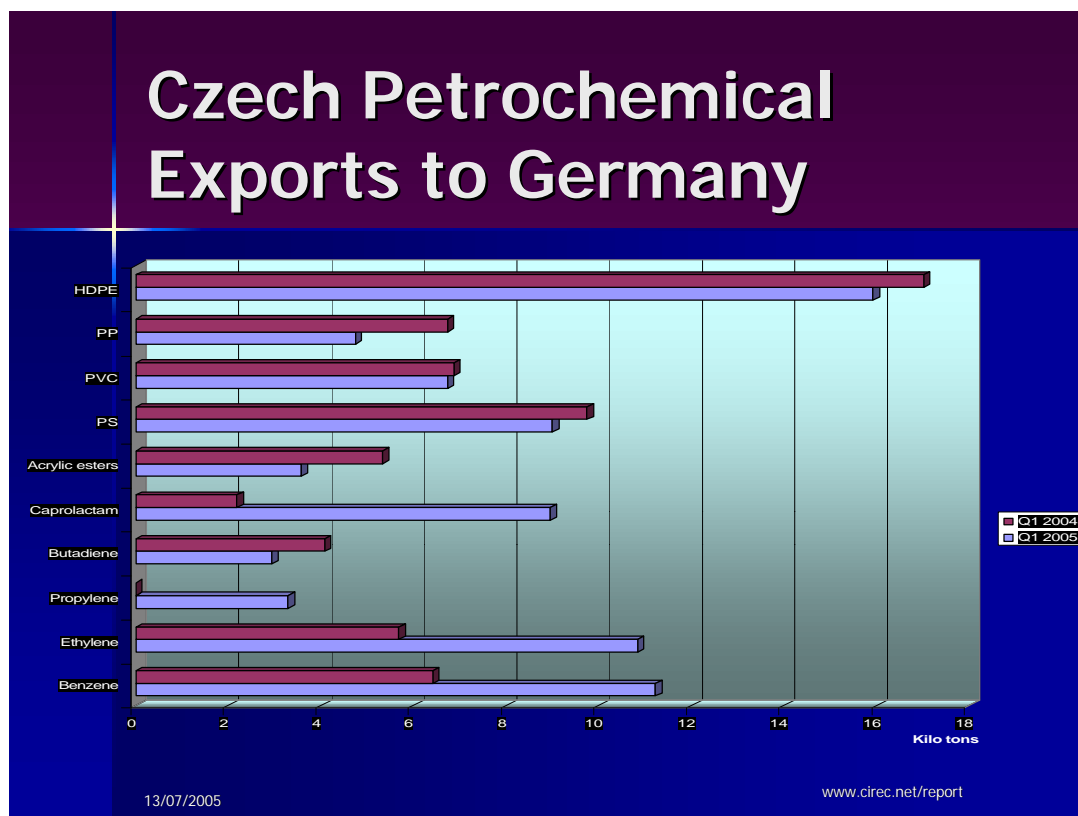
Edited by **Andrew Sparshott** | Tel **+44 (0)20 8669 5126** | Email **enquiries@cirec.net** | Web **www.cirec.net**

Czech Republic | Slovakia | Hungary | Poland | Bulgaria | Romania | Croatia | Slovenia | Yugoslavia | Baltic States | Russia | Belarus | Ukraine | Transcaucasus | Central Asia | Kazakhstan

Issue 176, 18 July 2005

### ***Features from the eighth issue in 2005***

- The first stage of PKN Orlen's integration of Unipetrol envisages so-called segment management, which means taking supervision over these companies by PKN staff from Poland who supervise the same areas of operations. However, there could also be mergers of similar assets, then to create new companies for selling them later either on the Polish or Czech bourse. Thus at this stage, there are quite a few possible scenarios of how the assets could be managed or possibly resold.
- As one of the three chemical subsidiaries in the Unipetrol group Spolana has become a more attractive target than it was three years ago, after the floods which hit Prague and caused many problems for the plant. The key business commodities of Spolana are PVC and caprolactam. In 2004, the production of granulated PVC restarted on the equipment which had been repaired after the floods of 2002.
- Nitrokémia 2000 Rt is reported to be close to signing a deal to sell its phthalic anhydride plant to the Slovenian company Kemiplast d.o.o, which is said to have offered nearly Ft 1 billion for the facility. Nitrokemia, which went into liquidation last December, has been struggling to offload its assets to potential investors needed to pay off its debts.
- Nafta Polska announced that it initially had received 37 offers from potential investors for the privatisation of chemical assets. Following verification, 30 offers submitted by 16 companies fulfilled the stipulated requirements. The largest companies among the potential buyers include Ciech, Petro Carbo Chem and Anwil, the latter in cooperation with Orlen.
- Russian petrochemical production remained steady in the first quarter. Ethylene was down in Q1 compared to the same period last year, with a resultant impact on polyethylene. This was due principally to the lack of feedstocks at Kazanorgsintez. In April, ethylene production was down nearly 10% on April 2004, falling to 181,000 tons. This is a short term problem though as the Orenburg helium plant is gradually getting back on stream.
- Russian petrochemical companies are opposing amendments to articles 22 and 26 of the second part of the Russian Tax Code, introducing excise duties on naphtha. According to Nizhnekamskneftekhim and other petrochemical producers, the introduction of a 2,657 rouble/ton excise on naphtha would make Russian petrochemical products uncompetitive compared to imports. The introduction of this rate will make the export of naphtha extremely profitable, as exports will not be subject to excises.
- Gazprom plans to construct a pyrolysis unit at Astrakhan with the output of more than twenty products, from benzene to naphthalene. As part of these plans ideas are being considered to build plants for polyolefin production at Astrakhan, including 300,000 tpa of polypropylene and 150,000 tpa of polyethylene. These projects are influenced on the one hand by the oil gas deposits in the North Caspian sea and Astrakhan's location on the Volga which would allow it to ship product.



### Czech Republic

In the first quarter of 2005 Czech exports of organic chemicals and polymers to Germany increased by 21% against the same period in 2004. Exports of HDPE from Litvinov and acrylic esters from Sokolov were both down on last year, but at the same time ethylene exports from Chemopetrol to BSL doubled against Q1 2004 whilst propylene exports came from zero to reach 3,200 tons. The increases seen this year were due to market forces rather than the impact of EU accession. As the new owners of Unipetrol PKN Orlen has already highlighted the need for an ethylene pipeline from Plock to Litvinov, which would open up other possibilities for Czech exports, but this is more of an idealistic concept than actual plan.

In 2004 overall, Czech chemical exports amounted to €2.83 billion, which comprised a share of 5.4% in total Czech exports, whilst imports amounted to €5.2 billion which comprised a greater share of 10.6% in total Czech imports. Consequently, there was a deficit in chemical trade of €2.35 billion.

## CENTRAL EUROPE

### Czech Republic

(Czech crown, Kc, Jul 18, \$1 = 25.1340, €1 = 30.243)

#### PKN Orlen-Unipetrol

The first stage of PKN Orlen's integration of Unipetrol envisages so-called segment management, which means taking supervision over these companies by PKN staff from Poland who supervise the same areas of operations. However, there could also be mergers of similar assets, then to create new companies for selling them later either on the Polish or Czech bourse. Thus at this stage, there are quite a few possible scenarios of how the assets could be managed or possibly resold.

PKN Orlen has submitted its conditions for a mandatory buyout of shares of several companies. Terms for the buyout of Unipetrol refinery Paramo and Spolana to the Securities Commission (KCP), were specified without disclosing the price or any other details.

**Spolana**

As one of the three chemical subsidiaries in the Unipetrol group Spolana has become a more attractive target than it was three years ago, after the floods which hit Prague and caused many problems for the plant. The key business commodities of Spolana are PVC and caprolactam. In 2004, the production of granulated PVC restarted on the equipment which had been repaired after the floods of 2002.

Spolana is the sole producer of PVC and caprolactam in the Czech Republic. It supplies the domestic PVC market with around 12% of its PVC, which covers roughly 25% of the domestic market needs. The domestic consumption of caprolactam is negligible; and Spolana exports the largest share of production. Spolana has the largest share on the caustic soda market in the Czech Republic; with the other domestic competitor being Spolchemie at Usti nad Labem.

Sales in 2003 were influenced by gradual return of Spolana to the markets at the start of the year, after the several month absence caused by the floods and their consequences in 2002. The revenues were also

affected by the shutdown of LAO plant in July 2003.

**Spolana's Sales Revenues (Kc thousand)**

	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total	3,551,920	4,603,385	4,989,803
Domestic	545,006	635,829	764,106
Export	3,014,281	3,967,556	4,225,697

In 2005, Spolana expects that caprolactam production will run at full capacity due to the increased demand for polyamide and that strong prices will help to achieve positive gross profit margins.

**Other Czech news**

Swedish polycarbonate sheet producer Arla Plast is investing €10 million to establish a new plant at Kadan in the Czech Republic. The facility will create at least 40 new jobs. The new production unit will manufacture hollow polycarbonate sheets, which are used mostly in construction applications, accessories and packaging. Arla Plast is Europe's third largest producer of polycarbonate sheet, which represents around 70% of its annual sales.

**Czech chemical industry performance**

For the Czech chemical industry 2004 was a better year than 2003 with a 17.7% increase in revenues. The reason was revived growth on the domestic and foreign markets, and more favourable profit margins, mainly in the petrochemical industry. The accession of the Czech Republic to the European Union was positively reflected in trade. The share of exports increased from two-thirds to more than 80%.

**Czech Exports to EU 15 (unit-kilo tons)**

<b>Product</b>	<b>Jan-Dec 2004</b>	<b>Jan-Dec 2003</b>
Ethylene	39.571	31.422
Propylene	13.835	24.338
Benzene	39.396	25.012
Toluene	1.503	1.709
HDPE	117.044	98.415
Polypropylene	66.500	47.418
PVC	53.399	57.662
Polystyrene	52.664	58.461
Acrylic esters	36.512	35.454
Acrylic Acid	9.068	8.463
Caprolactam	29.213	31.536
Aniline	18.285	8.394
DOP	6.88	4.328
P Anhydride	3.016	2.106

**EU 15 defined as countries in the EU prior to 30**

Following the successful privatisation of Unipetrol possibly the only remaining Czech chemical company still to be privatised is Spolchemie.

The important projects carried out in the Czech Republic in the 2003/2004 timeframe included the opening of new production of polypropylene unit, a new unit to produce 100% nitric acid, the new ETHYLBENZEN II unit. Also work was started on the expansion of the aniline plant at Ostrava. The main challenge to Czech chemical companies in the near to medium future is seen as the new legislation resulting from REACH.

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**Hungary**

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(Hungarian Forint, Jul 18, \$1 = 204.64 €1 = 246.27)

**Hungarian Chemical Industry Performance**

The performance of the Hungarian chemical industry increased by 7.6% in 2004, thus contributing to 14% of total industrial production and 15.6% of all processing industry. At the same time the industry is facing

possible pressure from the European Union as environmental protectionist measures which could result in the Hungarian chemical industry bearing costs of up to Ft 100 billion.

The European Parliament will probably discuss the plan of directives worked out by REACH that would oblige Hungary to register each chemical material that is to be put into circulation in the EU.

#### **Nitrokemia 2000 Rt**

Nitrokémia 2000 Rt is reported to be close to signing a deal to sell its phthalic anhydride plant to the Slovenian company Kemiplast d.o.o, which is said to have offered nearly Ft 1 billion for the facility. Nitrokemia, which went into liquidation last December, has been struggling to offload its assets to potential investors needed to pay off its debts. Negotiations with several bidders have so far proved unsuccessful as offers were too low. In the first round, three companies, two Hungarian and one from Slovenia, have expressed interest in buying Nitrokémia's assets, but the company said it will invite another round of bids this summer.

#### **BorsodChem**

The net profit forecast for BorsodChem for 2005 has been revised downwards to Ft17.8 billion from Ft18.7 billion after the management revealed that margins in PVC and TDI fell in the second quarter. This was attributed to global over-supply in commodity plastics and persistently high raw material prices. In terms of acquisitions, BorsodChem's interest in Zachem is conditioned by the company's financial status and essentially whether or not the economic situation of this company has improved.

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### **Poland**

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(Polish zloty, zł, Jul 18, \$1 = 3.342, €1 = 4.130)

#### **German imports into Poland**

German imports into Poland in the first quarter of 2005 increased by 14% compared to the same period in 2004, with methanol and polystyrene showing the largest relative increases. As one of the major German companies in Poland, BASF Polska's turnover in 2004 amounted to zł 1.19 billion. The company is focused on organic growth based on its mainstream production facilities in West Europe.

#### **Nafta Polska**

Nafta Polska announced that it initially had received 37 offers from potential investors for the privatisation of chemical assets. Following verification, 30 offers submitted by 16 companies fulfilled the stipulated requirements. The largest companies among the potential buyers include Ciech, Petro Carbo Chem and Anwil, the latter in cooperation with Orlen.

#### **German Exports to Poland (unit kilo tons)**

<b>Product</b>	<b>Q1 2005</b>	<b>Q1 2004</b>
Propylene	11.189	12.327
Butadiene & Isoprene	6.406	0.496
Ethylbenzene	2.379	7.084
Styrene	1.039	0.254
Benzene	0.539	6.281
Methanol	24.849	8.106
DOP	2.538	1.855
PVC	32.746	27.168
HDPE	16.124	8.861
LDPE	12.498	10.895
Other PE	2.538	5.582
Polypropylene	18.465	16.355
Polystyrene	15.154	22.784

Until August 9, the investors will deliver their investment plans, which will be recognised as binding. After this process has been completed Nafta Polska will draw up a short list of a few companies. During September 2005, potential investors will be able to carry out due diligence on the chemical plants undergoing privatisation. The process is expected to be finalised by the end of this year.

#### **PKN Orlen**

PKN Orlen plans to complete the implementation of its complex programmed of reducing operating costs (called KPRKO) in 2005, and already plans to launch a new cost-cutting measure called Optima. KPRKO, which was launched in 2003, will bring savings of zł800 million. Optima, which is planned for the period 2006-2009, is to reduce costs by zł 600 million. The company estimates that in 2009 the aggregate results of cost reduction (KPRKO and Optima) will bring at least zł 1.4 billion in lasting savings.

Under Optima, the costs in Orlen's subsidiaries such as Anwil and refineries in Trzebinia and Jedlicze are to decrease by zł 135 million, while the restructuring of the company's retail network will bring another zł 190 million in savings. The cost cuts in the area of production and logistics will amount to zł 125 million. Orlen also plans to reduce its investments. By 2009 it intends to spend a maximum zł4.7 billion for that purpose instead of the earlier planned zł 5.3 billion.

### **Polish-Czech integration**

Anwil has submitted to Nafta Polska an application for purchase of Zakłady Azotowe Tarnów SA and Zakłady Azotowe Kędzierzyn SA. Petro Carbo Chem has also expressed interest in the purchase of these two plants. In theory at least, there should be no competition as PKN Orlen offers much better prospects for the development of the chemical industry in Poland and aims to integrate Tarnów and Kędzierzyn along with its new Czech divisions.

Under a four-year-old investment programme planned by PKN Orlen, the holding envisages the strategic goal of integration between the production facilities at Tarnów and Kędzierzyn and the Czech subsidiaries in Unipetrol. In particular, this should lead to an expansion of the production of butanols at Kędzierzyn SA, important linkages between Spolana and Anwil for PVC production, and also caprolactam between Spolana and Tarnów. There is already oxo alcohol production at Litvinov, but there were plans by Chemopetrol even before the Orlen takeover to phase out this unit by 2008. The Kędzierzyn oxo alcohol plant is far more modern than the unit at Litvinov, although the Kędzierzyn plant has to rely on merchant market propylene.

Essentially the Tarnów and Kędzierzyn plants are dependent on PKN Orlen for petrochemical feedstocks so there seems logical reason to unite these companies under the same ownership structure. Polish-Czech integration is seen as a positive development for Central Europe and could move the main axis of interest for the chemical industry away from MOL and BorsodChem.

### **ZA Tarnów**

Air Liquide has successfully started up a nitrogen production unit to supply Zakłady Azotowe Tarnów. Under the terms of this new long term contract, Air Liquide will operate an on-site nitrogen generator with a capacity of 2,000 m<sup>3</sup>/h. The installation is completed by a liquid nitrogen back-up for both low pressure and high pressure needs.

### **ZA Pulawy**

Following the company's failure to be floated back in 2001, ZA Pulawy now plans to sell 5.515 million new B series shares between 29 August and 9 September. The Treasury Ministry, which owns the company, is postponing the floatation on purpose in order to avoid the simultaneous listing of several companies. However, this issue will greatly depend on the size of success of the IPO of the Police Chemical Plant which has just taken place. .

### **Z Ch Police**

ZCh Police SA placed its shares on public sale on 27 June, with Ciech known to be interested to buy a control package in the company. Ciech is currently in talks with ZCh Police SA with plans for investment into the company. ZCh Police SA is also being eyed by Germany's RSJ, which hopes to beat Ciech in a battle to acquire the enterprise. The public offer of Police is the first step in the privatisation process.

ZCh Police SA made its presence on the Warsaw bourse on 14 July with the emission of 15 million shares. The price of shares was placed at \$3.4 each, but rose quickly on debut before falling back. After the debut on the bourse ZCh Police SA will control 20% of the company, with the government still owning 68%. ZCh Police SA expects that it will gain around \$51 million from the share debut, which will be used in the company's modernization and expansion programme.

The total cost of projects being planned amounts to \$163 million of which in 2005 ZCh Police SA will invest \$2.5 million in the construction of an ammonium sulphate plant. The company also plans to increase titanium dioxide white to 65,000 tpa from 40,000 tpa. The value of this project is placed at \$80 million. Other projects include the construction of a terminal for the transportation of phosphoric acid which will cost \$20 million, and a methanol plant at \$50 million.

## **BALTIC STATES**

### **Mazeikiu Nafta**

ConocoPhillips is considering a possible purchase of a stake in Mazeikiu Nafta, which is currently controlled by YUKOS, and may invest into the sole Baltic oil refining and transportation complex in conjunction with LUKoil. Alongside the stake in Mazeikiu Nafta, which still remained in control of YUKOS, ConocoPhillips would be willing to acquire some shares from the government. Gazprombank, partially owned by Gazprom, may also be interested in buying a stake in Mazeikiu Nafta.

## EURASIA, COMMONWEALTH OF INDEPENDENT STATES

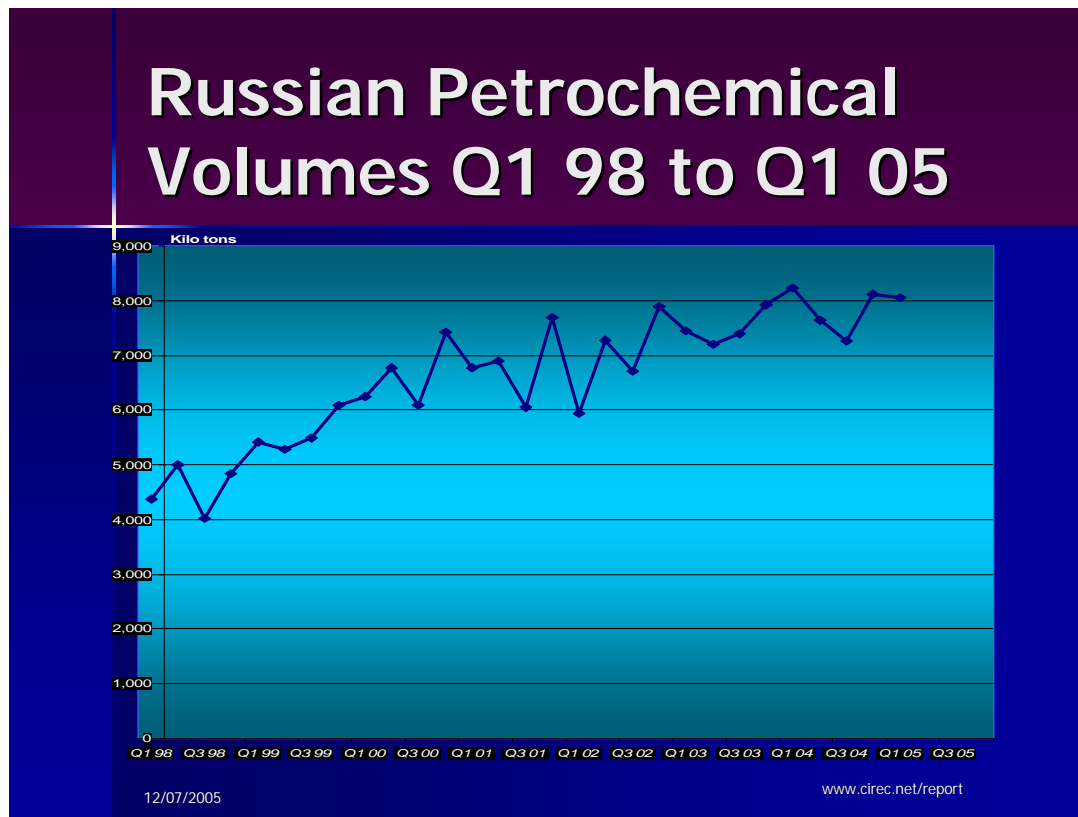
(Rus rouble Jul 18, \$1 = 28.695, €1= 34.532)

### Russia

#### Russia's Petrochemical Output 2005

Russian petrochemical production remained steady in the first quarter. Ethylene was down in Q1 compared to the same period last year, with a resultant impact on polyethylene. This was due principally to the lack of feedstocks at Kazanorgsintez. In April, ethylene production was down nearly 10% on April 2004, falling to 181,000 tons. This is a short term problem though as the Orenburg helium plant is gradually getting back on stream.

Other major products that were affected included methanol, which was due largely to the downtime for modernisation at Metanol at Tomsk and to a lesser extent at Metrafrax at Gubakha. Together these two plants produced 75,000 tons less in the first quarter of 2005 than in the same period last year. The production numbers for all products for the first quarter can be found at [www.cirec.net/report](http://www.cirec.net/report).



Amongst the products that saw an increase benzene was possibly the most welcome, albeit only by 8%. This increase was not due to any plant in particular, but higher output for most plants. Styrene output increased nearly 16% in the first quarter, with Nizhnekamskneftekhim and Salavatnefteorgsintez increasing production by 13% and 24% respectively. The largest increase in output in the first quarter was seen in acetic acid, which rose 18% over 2004 at the Nevinnomyssk Azot plant.

In the first five months of 2005, total output in the chemical and petrochemical industries was up 2.6% on the same period in 2004. Styrene has continued to rise, whilst the production of synthetic rubber increased 7.7% in the period January-May 2005 over the same period in 2004, but ethylene and polyethylene production were down 6.7% and 8.9% respectively.

## WTO

There are signs that Russia's intention to complete negotiations on joining the World Trade Organisation (WTO) this year might be not fulfilled. The negotiations have demanded that Russia abolish exchange restrictions and to level out gas prices and railway tariffs before entry to the WTO. Russia wants to complete the negotiations on joining the WTO before the end of the year to get the member status in 2006. However, recently it became known that the exact date would be only cleared after a conclusion to negotiations had been reached.



## Naphtha excise duty

Russian petrochemical companies are opposing amendments to articles 22 and 26 of the second part of the Russian Tax Code, introducing excise duties on naphtha. According to Nizhnekamskneftekhim and other petrochemical producers, the introduction of a 2,657 rouble/ton excise on naphtha would make Russian petrochemical products uncompetitive compared to imports. The introduction of this rate will make the export of naphtha extremely profitable, as exports will not be subject to excises.

It could mean that Russia could end up supplying naphtha feedstock to Western petrochemical producers and then purchase it back in the form of finished products.

The purpose of the new excise is to counteract the use of naphtha for the illegal manufacture of surrogate automotive gasoline. However, there are question marks over whether this excise duty would have any effect on criminal activity. As far as the petrochemical industry is concerned the excising of naphtha puts those plants at a disadvantage against plants that rely on liquefied gases and ethane.

The first reading of the bill On Amendments of RF Tax Code Article on Excised Commodity was heard on 1 July. If the tax is approved in the State Duma, it is feared that the prices for the major plastics in Russia are estimated to need to increase between 18-28% due to increases in the cost of naphtha. In 2004, the petrochemical industry accounted for 3.9 million tons of naphtha consumption from a total production of 10.8 million tons. Naphtha currently accounts for around 57% of Russian ethylene production.

**Rosneft**

Rosneft is trying to resolve the problem of insufficient refining capacity after the purchase of Yuganskneftegaz from YUKOS. The company does not have the funds to construct a new refinery and the priority seems to be focused on arranging a deal with the Bashkirian refineries.

Rosneft controls two refineries at present, the Tualse refinery with a capacity of 3.9 million tpa and the Konsomolsk na Amur refinery with a capacity of 5.9 million tpa which plans to increase to 6.24 million tpa and eventually 7 million tpa. In 2004, Rosneft produced 22 millions of crude but after the acquisition of Yuganskneftegaz this will rise to 54 million tons. By 2015, the company could be producing between 115-120 million tpa. It could be possible that Rosneft concludes deals with foreign companies for refining.

Rosneft could take over shares in the refineries belonging to YUKOS, such as Angarsk Petrochemical Company. YUKOS has said that the company will sell some of its core assets in order to pay the debts if it gets permission from the Russian authorities.

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**SIBUR/Gazprom**

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**AKS Holding**

SIBUR and its subsidiaries SIBUR-Tyumen, Neftekhim-Leasing, SIBUR-Neftekhim, and SIBUR-TyumenGaz have founded the AKS Holding with a charter capital of 40.1 billion roubles. The reasons for the creation of the new holding is the consolidation of SIBUR's debts, which at the start of 2004 totalled 67.86 billion roubles.

Currently the process of selling the concept of the AKS Holding is about to start which will last for around one and a half months. Gazprom envisages that around 25% of shares in AKS Holding, after conversion has been completed, will be sold to a strategic investor which could potentially be a foreign company.

**Novatek**

Gazprom and Novatek have signed an agreement over future co-operation in gas transportation and development. The co-operation could lead to joint projects for ethylene and polyethylene, and methanol. These ideas are at the formative stage and will require further evaluation.

The history of Novatek originates from the middle of the 1990's and the Purneftegasgeologia Company, which was exploring the deposits for Gazprom. That created the raw material base for NOVATEK that currently owns 583 billion cubic metres of gas. Purneftegasgeologia is the main part of the company's structure.

The co-operation between Gazprom and Novatek envisages several important projects such as creation of joint venture to finish construction of Novy Urengoy Gas Chemical Plant (NGCP). It looks like that Gazprom would have a controlling share of NGCP and NOVATEK will invest \$250-\$350 million. The plant will produce polypropylene and it will be used on Samara plant, which belongs to NOVATEK, to make a polypropylene film. The companies are also discussing the construction of the plant at Novokuibyshevsk that would produce polypropylene, polystyrene and benzene (400,000 tpa) on the base of SIBUR complex.

**Novy-Urengoy**

Gazprom is considering the sale of a 10.74% stake in the Novy Urengoy gas chemical complex with the aim of attracting finance to complete the project. Talks have been underway between Gazprom and Novatek regarding the joint development of the Novy Urengoy project.

**Astrakhan**

Gazprom plans to construct a pyrolysis unit at Astrakhan with the output of more than twenty products, from benzene to naphthalene. As part of these plans ideas are being considered to build plants for polyolefin production at Astrakhan, including 300,000 tpa of polypropylene and 150,000 tpa of polyethylene. These projects are influenced on the one hand by the oil gas deposits in the North Caspian sea and Astrakhan's location on the Volga which would allow it to ship product.

The concept of constructing polyolefin facilities at Astrakhan is far from new as Gazprom was looking at this possibility in 1994. Feedstocks are in plentiful supply from the North Caspian. Annually, output in the



Astrakhan region comprises 12 billion cubic metres of gas, 4 million tons of condensate and 4 million tons of sulphur. The region produces 82% of Russian sulphur production.

### **SIBUR plant performance**

SIBUR-Neftekhim increased production in the first six months of 2005 by 6.5%, for its tow locations at Dzerzhinsk and Kstovo. Ethylene oxide production increased 8.9%. In the period January-May 2005 Tobolsk-Neftekhim increased processing of SHFLU by 13.2% to total 939.800 tons, in comparison to 2004. Butadiene production rose by 36.4% in the first five months of 2005 to reach 83,000 tons. Production of concentrated isobutylene increased from 13,900 tons in 2004 to 14,400 tons. MTBE rose by 20.1% to reach 33,400 tons. At the moment, the complex is undergoing planned maintenance in which equipment for the gas rectification column will be replaced. This is expected to increase capacity of the columns by 30-40% and will take processing at the gas fractionation unit up to 3 million tpa.

In the first half of 2005 Voronezhskintezkaucuk increased the production of synthetic rubber by 22.2% over the same period in 2004. Turnover from sales increased 38% to reach a total of 1.6 billion roubles. Exports accounted for 47.1% of total revenue. The company is focused currently on developing new types of polymers and has recently started a new unit for the production of polybutadiene rubber.

In June 2005, SIBUR-Khimprom increased production by 9% against June 2004. During the month the company processed 34,570 tons of liquid gases, 4,379 tons of propylene from prolepsis and 561 tons of propylene from propane-propylene fractions, 2,777 tons of MTBE, 8,570 tons of ethylbenzene, 4,604 tons of styrene, 5,264 tons of butanols, and 3,321 tons of 2-EH. In comparison to June 2004, processing of liquid gases increased by 6,462 tons.

In the first half of 2005 the Tomsk petrochemical complex surpassed last year's volumes marginally. Ethylene production was up by 4,000 tons and polyethylene by 6,000 tons over the same period in 2004. Formaldehyde and urea-formaldehyde production increased by 38.1% and 50.6% respectively. The volumes were 59,192 tons of formaldehyde and 53,503 tons of urea-formaldehyde resins. Tomskneftekhim is currently engaged in expanding its capacities for polyethylene and polypropylene.

### **Tomskneftekhim**

Product prices from Tomskneftekhim could increase substantially in connection with the introduction of the new tax code (see first article in Russia section), which has become effective from 1 July. This will lead to an increase in naphtha prices. Tomskneftekhim consumes around 35,000 tons per month of naphtha, or 400,000 tpa. Prices of petrochemicals from Tomsk could rise by 15-17% from 1.1.2006 when the law takes full effect.

According to changes in the tax code the Tomsk area will give out certificates to Tomskneftekhim for the volumes of naphtha. These certificates will be sent by Tomskneftekhim to naphtha Surgutgazprom and Tobolsk Neftekhim, and they will show them in turn to tax bodies.

### **Novokuibyshevsk Petrochemical Company**

In the first half of 2005 Novokuibyshevsk Petrochemical Company (NNK) produced a total of 268,600 tons of feedstocks and monomers. This included fractions for propane, normal butane, isopentane, isobutene and more specialised products such as para-tretyl-butylphenol. The plant delivered 24,600 tons of isoprene in this period to Togliattiikauchuk.

### **Tyres**

SIBUR plans to invest up to \$300 million annually in the holding's tyre business, which will see output increase from 37.5 million tyres in 2003 to 47 million tyres by 2008. The largest growth will be seen in the output of automobile and lorry tyres. Russia is the main the market for SIBUR's tyre sales. A significant share of the investment programme will be targeted on the production of metal cord tyres.

Another target will be to create to develop a raw material an quality centre at the Yaroslavl tyre plant. At Omskhina, the main goal will be to modernise the existing equipment to increase output, with similar targets planned for Uralshina and Voltyre.

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**Kazanorgsintez**

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After the major accident which took place in August 2004 the Orenburg Helium Plant (OGZ) is not expected to be working at full capacity until the end of 2005. This will then allow full deliveries of ethane to be restarted to Kazanorgsintez. The first part of OGZ was restarted in March 2005, and the second in April. The other three units will be restarted in November-December 2005.

Until the accident Kazanorgsintez received almost all of its ethane supplies from OGZ, which equated to around 400,000 tpa from 475,000 tpa. After the accident supplies were reduced from 35,000 tons per month to 12-14,000 tons per month. To maintain derivative production Kazanorgsintez has been forced to buy additional ethylene from Salavatnefteorgsintez and Nizhnekamskneftekhim. For consumption of 21-22,000 tons per month KOS was forced to buy 17,500-18,500 tons from other sources, but from January this fell to 9-10,000 tons per month.

TAIF and Kazanorgsintez are participating in the development of OGZ through Gazprom. The Orenburg plant is expected to increase ethane production in the future, based on Karachaganak deposits, and thus will provide a key source of feedstocks for KOS.

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**Nizhnekamskneftekhim**

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Nizhnekamskneftekhim and TAIF plan to create a new jv called Neftekhim-Energo for the power plant at Nizhnekamsk. The total cost of the reconstruction of the energy company is around \$150 million. Neftekhim-Energo plans to install new equipment which will arrive in August 2005.

In general strategy for energy Nizhnekamskneftekhim is using far more gas than in previous years. The company estimates that by increased gas usage in the first half of 2005 it saved 142,300 gcal thermal and 15,1 million. Kw/hour of electric energy,

**Polystyrene**

On 30 June, Nizhnekamskneftekhim produced the first grams of expandable polystyrene from the new plant. This will provide an additional 50,000 tpa of capacity to the existing 50,000 tpa plant, which was started up in July 2003.

Nizhnekamskneftekhim has confirmed its involvement in the BOPS project at Elabuga. The project is being developed on a joint venture basis with Elaz for the construction of the first BOPS plant in Russia with a capacity of 15,000 tpa. The equipment will be supplied by Marshall & Williams Plastics, and is scheduled to be completed in 2006.

**Synthetic Oils**

The Nizhnekamsk synthetic oil plant is scheduled to re-open on 10 August. The plant was stopped in May 2004 due to quality problems, the shortage of ethylene for alpha olefin production and to some extent the lack of a local market at the time. All three of these conditions have changed, the quality problems have been resolved, the problems of ethylene availability will be solved partially with the start-up of the production of ethane from the Orenburg Helium Plant, and finally the market is growing.

The 10,000 tpa plant for synthetic polyalphaolefin-based oils was opened at the oligomer division at Nizhnekamsk in December 2003. Tatneft (with 74%) and Nizhnekamskneftekhim (with 26%) are the co-founders of the plant. The production process has overcome the low quality of local Tatar crude.

The aim is now to expand the range of products and to increase the amount of value added product in the product mix. A new product under the LUKoil is being studied, whilst a polyalphaolefin 12 product is being reviewed with European producers of transmission oils.

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**Nizhniy Novgorod**

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**Akrilat**

In the first quarter of 2005 Akrilat at Dzerzhinsk made a profit of 7.801 million roubles from a turnover of 418.035 million roubles. Profits from sales were 48,863 million roubles, whilst the profit before tax at 8.5

million roubles. The start-up of the acrylic acid and acrylic ester plants in 2004 have thus already started to show profits from sales in the domestic market and in exports to China.

**NB-Petal**

NB-Petal has delayed its plans for start-up of the PET plant at Dzerzhinsk. Initially the plant was planned for start-up in the first half of 2006, but now this has been delayed to the end of 2006 or even sometime in 2007. This means that the selection of the contractor and the start of deliveries of equipment from Zimmer AG has been postponed. The delay is due in part to the reorganization of NB-Petal through the merger with the Lithuanian company NB Europe.

This will help to create a new company Retal industries, which will be based on the unification of ten plants belonging to NB-Petal and from plants belonging to NB Europe (two in Lithuania, one in the Czech Republic and one in Ukraine).

The production capacity of the company will total 7.5 billion preforms, with an annual turnover of \$300 million. NB-Petal has plans for constructing the PET plant at the Korund site at Dzerzhinsk. The planned capacity is 154,000 tpa at a value of \$70 million. At the same site it was planned to construct a PET preform site of 60,000 tpa and a PET film plant of 17,000 tpa.

**PET films**

NB-Petal has signed a contract with the French company DMT for the supply of equipment for a PET film plant in Russia worth 25 million. NB-Petal is the largest producer of PET preforms in Russia and will start the first line of the PET film plant in the second half of 2006. The second line will be introduced in the second half of 2008. The first line will have a capacity of 17,000 tpa, which may leave a small surplus initially as the Russian market in 2005 is only expected to total 10,000 tons.

The new units will be constructed in the Noginsk region of the Moscow region, a location that was chosen for its proximity to the major producers of packaging.

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**Bashkortostan**

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**Polief-Ufaneftkhim**

The dispute over the sale of shares in Polief to Selena continues with the Moscow Arbitration Court yet to consider claims made by SIBUR and LUKoil-Neftekhim that the transaction was illegal. In the meantime Selena has been in efforts to arrange supplies of paraxylene from Ufaneftkhim for the next five years. The conclusion of this deal is seen as being helpful to the cause of Selena as it indicates that the company is committed to the PTA project. A contract for 12,000 tons per month of paraxylene was concluded in July between Selena and Ufaneftkhim. Other products required include 1,000 tons of acetic acid and thus an agreement for domestic supplies would need to be concluded with Evrokhim which manages the Nevinnomyssk plant.

Polief has already invested 620 million roubles into the construction of the PTA plant, for which output is now planned for October 2005. Selena has stated that it is ready to invest the remaining funds into the completion of the plant.

Supplies of paraxylene are expected to start delivery from the second half of July in volumes of 7,000 tons per month. Thus, Selena will have to find suitable storage until the plant starts later in the year.

Ufaneftkhim has in theory 165,000 tpa of capacity for the production of paraxylene. Although production levels have been nowhere near that level for a long time. It is necessary to go back to 1999 to find a production volume for the year greater than 40% of capacity. Until now, the paraxylene produced by Ufaneftkhim has been exported, mostly to Belarus in recent years. So the start-up of the Polief complex looks like proving a major boost not only for PTA sales into the Russian market, but also paraxylene production.

**SNOS**

At the end of July Salavatnefteorgsintez plans to produce a trial run of orthoxylene for the captive production of phthalic anhydride. The process has been developed internally in conjunction with the scientific-research company Neftekhimik in St Petersburg. The plant is expected to start in the current year and will have a capacity of 15,000 tpa. At the start of July the Bashkortostan President met with Gazprom to review the

position on shares in SNOS. Since Gazprom's involvement at Salavat the complex has seen more stable supplies of feedstocks and good profit levels. Over the next five years Gazprom plans to invest up to \$100 million in SNOS.

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**Product/Company News**

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**Polypropylene**

LUKoil-Neftekhim has concluded a licensing agreement with Dow Chemical Company for the use of the UNIPOL polypropylene technology at the Stavrolen complex at Budyennovsk. The plant capacity is 120,000 tpa with a start of construction planned for 2006.

**BOPP**

On 30 June 2005, Novatek started its new BOPP plant at Novokuibyshevsk. The creation of the BOPP plant will help to replace imports into Russia. The capacity of the new plant is 25,500.tpa, with the capability to produce a wide range of films. Bruckner supplied the equipment for the plant which will be managed by Novatek subsidiary Novatek-Polimer. Construction of the plant started in November 2003 and cost a total of €50 million. The strategy of Novatek is targeted on the development of hydrocarbon production through to value added production.

**Kuibyshevazot**

From the start of 2005 Kuibyshevazot has been engaged in the reconstruction of the caprolactam unit with one of the main aims being the reduction of production costs. This work has almost been completed. Caprolactam production figures for Kuibyshevazot and the other Russian producers can be accessed on line at [www.cirec.net/report](http://www.cirec.net/report).

The company is also active in building its second line for polyamide-6, following start-up of the first line in June 2004. The second line is expected to become operational by the first half of 2006. In order to feed the extra demands of the caprolactam and polyamide plants Kuibyshevazot is increasing its production of technical gases. Kuibyshevazot has decided to open a sales unit in China to help promote polyamide and cord fabric.

**DBP**

As the sole Russian producer of dibutyl phthalate (DBP) Uralkhimplast, located at Nizhniy Tagil, has started to deliver product directly to customers. For the past three years sales have been co-ordinated through the Ural chemical centre in Perm, but this contract has now been terminated. According to Uralkhimplast, these changes are connected to the company's own distribution programme and the company now has its own trade missions in Moscow, St Petersburg, Togliatti, Novosibirsk, Rostov-on-Don and the Sumy region in Ukraine. The DBP capacity at Uralkhimplast is sufficient to meet the entire demands of the Russian market.

**Other news**

China and Russia have been in talks regarding co-operation on the production of polyurethane materials with a capacity of 10,000 tpa.

Koros will open a new line in the Moscow region in the third quarter this year for the processing of cellular polypropylene, with a capacity of 2,000 tpa. This plant will almost cover the entire demand for the Russian market at present. Currently, Koros produces cellular polycarbonate under the mark Sellex at 360 tons per month, which uses similar technology but possesses a different range of applications.

Mikass Plastics plans to open a polypropylene non-fibre plant based on span bond technology, which will start up at the end of 2006. The project is costing around \$15 million.

**Usolyekhimprom**

Usolyekhimprom has started up a new line for the production of caustic soda solution based on the method of carbonised electrolysis. The project was managed by Nitol which owns Usolyekhimprom. Soda ash is necessary for the production of caustic soda solution which is used in the production process of the company. Until now Usolyekhimprom has bought around 400 tons per month of the product, which in 2003 cost a total of 16 million roubles. The constant rise in prices for this product led to an increase in the cost of production.

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**Belarus**

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**Paraxylene project**

The Belarussian government has proposed to Slavneft to decide on its possible participation in a paraxylene project at the Mozyr Refinery. The government is currently developing the project depending on the Slavneft participation, but has given the company a date by which to decide. Otherwise, Belarus will continue with the project separately. The project is estimated in cost at \$200 million. It is important particularly for Mogilevkhimvolokno for the production of filaments and threads.

Despite assessments that the project is unprofitable, Belarus plans to launch the new paraxylene plant by 2007. The capacity of the plant will be 120,000 tpa and is part of the government's strategic programme for the petrochemical industry in the period 2004-2010.

The construction of a new paraxylene unit in Belarus is seen as essential due to the limits of the current production levels at Naftan, which amount to 5,000 tons per month and represents only around 30-40% of the requirements of Mogilevkhimvolokno. At the same time it is difficult to secure supplies from Russian paraxylene producers. The Mozyr refinery was first introduced in 1975. Since 1994 it has been a part of Slavneft. Mogilevkhimvolokno was introduced initially in 1968 with 99.95% of shares owned by the government.

**Mogilevkhimvolokno**

In the 2006-2007 timeframe Mogilevkhimvolokno plans to introduce a new unit for the production of PET with a capacity of 80,000 tpa. Other projects include 14,000 tpa of fibre components, and an increase of current capacity for cord technical threads from 2,500 tpa to 15,500 tpa. The amount of investment will total €46.5 million with a period of payback estimated at five years.

Mogilevkhimvolokno plans to increase its charter capital by 14.2%, or by \$275 million, in order to support these projects.

**Grodno Azot**

In the first five months of 2005 Grodno Azot increased caprolactam exports by 30.7% in 2005, Azot plans to produce a total of 56,000 tons of methanol and 107,100 tons of caprolactam. In May, the company produced 5,531 tons of methanol and 9,293 tons of caprolactam.

Azot's main consumer Grodno Khimvolokhno has introduced a complex for the production of polyester textile threads. The new line will produce around 15 tons per day of polyester threads, although it produces around 10 tons per day at present.

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**Ukraine**

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**(Ukrainian hryvnia, Jul 18, \$1 = 5.013, €1 = 6.3029)**

**Karpatneftekhim**

Under Lukor's current new name Karpatneftekhim, the Kalush petrochemical complex has reduced the production of chlorine and caustic soda in July. The caustic unit is working at minimum capacity, at up to 3,000 tons per month. At the same time, VCM production has been reduced to 6,300 tons per month, although this does not represent a major problem.

The reduction in production levels is due to the increase in costs of raw materials and energy costs, whilst at the same time petrochemical prices have been falling. For example, the company was getting \$687/ton for VCM in January and this has now fallen to \$360. Prices for ethylene, propylene, benzene and polyethylene have been falling affecting Karpatneftekhim. Ukrainian authorities have been increasing prices for energy, gas, and transportation costs for oil products.

As a result of the market conditions LUKoil-Neftekhim took the decision to carry out maintenance on the chlorine and caustic soda units in July.

**Azot Severodonetsk**

The privatisation deal for Azot, which was concluded last year, is still being reviewed by the government. On 22 December 2004, the authorities placed the assets of Azot and the Polyethylene division (which is idle) under sanitation. This was following the acquisition in the share structure of 60% by Worldwide Chemical in the autumn of last year, prior to the Orange Revolution.

**Polypropylene**

Polypropylene consumption in 2004 in Ukraine totalled 76,000 tpa, representing a 30% increase over 2003. Forecasts for 2005 suggest a further increase of 20%. Around 80% of consumption in 2004 was comprised of homopolymer grades. Linos at Lisichansk provides around two thirds of current consumption levels, with the remaining share provided from a wide range of sources including Dow Europe, Chemopetrol, Tomskneftekhim, Ufaorgsintez, etc. In terms of polypropylene film consumption reached 15,380 tons in 2004, which was 7% up on 2003 with growth of 7% predicted for 2005. BOPP is the dominant film, taking 81% of the total share.

In 2004, the Ukrainian polystyrene market exceeded 45,000 tons. Polystyrene consumption rose by 31% compared with 2003, and it is expected to increase by about 20% in 2005. The main polystyrene suppliers to Ukraine are: Stirol, EniChem-Dunastyr, Dow, Dioki, Nizhnekamskneftehim. 2004 witnessed polystyrene foam consumption growth of around 54%. Stirol Group accounted for a 78% share among the polystyrene foam suppliers in the Ukrainian market. EPS accounted for 83% of the market.

The PET market in Ukraine is estimated to have been accounted for 119,000 tons of consumption in 2004, with an average growth rate of 20% being seen in the period 2000-2004. Growth of 15-18% is expected in 2005.

**Crimean Titan**

RSJ Erste Beteiligungsgesellschaft GmbH plans to invest \$36 million in Crimean Titan. Based at Armyansk at Crimea Crimean Titan was created on 7 July 2004 in accordance with the decree from the government regarding the development of a complex for the production of titanium dioxide. RSJ Erste Beteiligungsgesellschaft mbH controls 50%-1 shares in Crimean Titan which is the leading producer of titanium dioxide in East Europe.

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