

EAST EUROPE & C. I. S CHEMNET

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

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

Edited & Produced by Andrew Sparshott©

ISSUE NUMBER: 120

1ST DECEMBER 2000

Some of the main features in the December 2000 issue

- Gazprom's tactical strategy for BorsodChem has been put on hold with the postponement of BorsodChem's EGM on November 24. The EGM could now be staged sometime in January. BorsodChem's management still fears that Gazprom will take control of the company at the meeting. The defensive stance has focused on shareholder identities which could prove if Gazprom had a larger than 33% stake in BorsodChem. If proven by the capital market watchdog PSZAF, Gazprom would be obliged by Hungarian law to make a bid for the remainder of BorsodChem's shares.
- Unipetrol's internal consolidation looks to have taken another step in November with the completion of the AliaChem and Paramo purchases. The Czech government approved the sale of its 70.9% stake in the Paramo refinery to Unipetrol for Kc 141 million. Canadian company Norex Petroleum, which lost the tender despite offering almost triple the domestic bid, is planning to file a complaint with the Anti-Monopoly Office. It claims Unipetrol has gained a lubricating oil monopoly through the purchases of Paramo and AliaChem. Unipetrol will now have to spend Kc 750 million by 2005 modernising Paramo according to the terms of a sale contract approved by the Cabinet.
- Increasing feedstock prices in the third quarter had a negative affect on TVK's profits. Naphtha prices increased on average from \$230/ton in January this year to \$276/ton (reported to be a 20-year high) by September. Quoted gas oil prices at \$222/ton in January increased to \$330/ton in September. Whilst earlier in the year polymer prices were keeping pace with feedstock costs, they started to lag behind in the third quarter with polyethylene prices decreasing.
- Russian chemical production is estimated by the Russian Ministry of Economy to have increased by 15% in the first ten months of 2000 against 1999. The trend continues to be upwards in spite of fears of a slowdown in the second half of the year.
- Nizhnekamskneftekhim and BASF have outlined their plans for the creation of a joint venture for the production of polystyrene at Nizhnekamsk. The joint venture is expected to be established in March 2001. The project plans include a 40,000 tpa polystyrene EPS plant scheduled for start-up in 2003 and a 120,000 tpa polystyrene impact plant for 2004. Nizhnekamskneftekhim has also mentioned the possibility of a 100,000 tpa polystyrene extrusion plant for 2005. The total capital expenditures for the EPS and impact polystyrene plants will amount to about 100 million euros, making it the largest sum a foreign company has invested in the petrochemical and plastics' sector in Russia.
- CFC production is finally on the verge of being halted completely in Russia. A grant of \$24.7 million has been made by the World Bank to cover the costs of closure of Russian CFC plants. This sum will also include the costs for Russian and foreign monitoring services for closing down plants. The units are located at Altaikhimprom in West Siberia, Kaustik and Khimprom both at Volgograd, Galogen at Perm in the north Urals, Kirovo-Chipetskiy Chemical Combine, and the Redinskiy plant in the Tver Oblast. These companies jointly have the capacity to produce around 140,000 tpa of CFCs.
- SIBUR announced on October 27 that it had created a joint venture with Belneftekhim called ZAO "Belneftekhim-SIBUR". The most important producers in the joint venture will include Polimir and Naftan, both at Novopolotsk, Khimvolokhno at Mogilev, Khimvolokhno at Svetlogorsk, and Lakokraska at Lida. Other chemical producers will include Khimvolokhno at Grodno, Belshina at Bobruisk and the Borisovsky works of plastic goods. SIBUR believes that it can raise capacity utilisation to 80-100% from the relatively low levels experienced by the producers at present.
- The polyethylene unit at Oriana's Polyolefin division was scheduled to restart production on November 23. The restart was facilitated by OOO "LUKoil-Neftekhim" following the recent tender. Gas oil supplies being delivered by LUKoil to Oriana will allow the polyethylene unit to achieve a utilisation rate in the range of 70-75%. After the hdpe unit the VCM unit, Oriana's Dianat division, will receive attention.

CENTRAL EUROPE

Restructuring

BorsodChem EGM postponed

Gazprom's tactical strategy for BorsodChem has been put on hold with the postponement of BorsodChem's EGM on November 24. The EGM could now be staged sometime in January. BorsodChem's management still fears that Gazprom will take control of the company at the meeting. The defensive stance has focused on shareholder identities which could prove if Gazprom had a larger than 33% stake in BorsodChem. If proven by the capital market watchdog PSZAF, Gazprom would be obliged by Hungarian law to make a bid for the remainder of BorsodChem's shares.

The composition of Gazprom's interests is claimed to be made up of Milford Holdings with 24.7%, Moscow based MDM-bank with 8.15%, Vienna Capital Partners (VCP) with a reported 16%, and CE Oil & Gas which owns 16.1%. Both VCP and CE Oil & Gas have denied allegiance to Gazprom. Other shareholders aligned with Gazprom could include AEB Bank based in Budapest. On November 24, BorsodChem's board prohibited MDM-bank, VCP and CE Oil & Gas from participating in the EGM owing to "untimely presented applications". But the picture is very unclear.

The postponement of the November 24 EGM was recommended by the BorsodChem board after capital market watchdog PSZAF said that BorsodChem shareholders should identify themselves. Registration of the new shareholders was only expected to be approved by BorsodChem as long as no connection with Gazprom could be proven. VCP had apparently managed to achieve this by the end of November.

MDM-Bank said that the abrupt postponement of the EGM was an attack on shareholders' rights. Without the support of CE Oil and VCP, there is a theory that Gazprom probably does not hold the majority of the shares.

The shareholders' EGM was called by Gazprom's Irish subsidiary Milford Holdings and which has called for the dismissal of BorsodChem's management after recent deals that blocked Gazprom's expansion in the Hungarian market.

The prevailing view is that Gazprom through its subsidiary Milford Holdings will be compelled to make a public buyout offer for outstanding BorsodChem shares. Gazprom has been trying to get a foothold in Central Europe, which it sees as a potential springboard to West Europe. However, efforts in Hungary and Ukraine have so far proved largely unsuccessful. Gazprom has also been linked to plans for building a pan-European ethylene pipeline, but Oriana was a key component in this structure. Gazprom seems to have been dropped to second in the race for control of Oriana behind LUKoil which is now sending feedstocks to Kalush.

Until the rescheduled BorsodChem EGM takes place, business will be as usual for the company. The CEO was quoted as saying "the board is not anti-Russian," "We have said that if anyone has anyhow more than 33%, they should buy the company". The broad view is that Milford is likely to vote down BorsodChem's management proposals at the EGM, now planned for January, starting with the proposal to approve BorsodChem's optional sale to MOL of its 15% stake in TVK. The fate of BorsodChem's management will also depend on the votes on the optional BorsodChem-MOL sale. Perhaps the one target that Gazprom is seeking, i.e., control of TVK, will remain elusive.

Another aspect of the BorsodChem's management's defensive strategy includes a clause which was put in BorsodChem's recent ten-year ethylene contract with TVK. The clause says that the entire supply contract could be cancelled if a strategic investor removes more than half of BorsodChem's board members. Other fallout possibilities include Mitsui & Co which said it would withdraw its license of TDI production from BorsodChem if a strategic owner gets control.

Despite earlier rumours, the EBRD will not carry out a capital increase in BorsodChem. The EBRD has stated it does not plan to increase its 8.7% stake as the company's ownership structure remains unclear. BorsodChem minority shareholders remain concerned over Milford's plans. Unless there is an opportunity (to reach transparency) before the January EGM, another postponement should even be considered according to capital market watchdog PSZAF.

MOL's increase of shares in TVK

The uncertainty remains over the future ownership of BorsodChem, but in the meantime MOL has been implementing its own strategy at TVK. MOL stated at the end of October that its stake in TVK had increased to 32.98% as a result of two transactions. These involved the sale by MOL of a 6.4% TVK stake to CIB Bank Rt. At the same time MOL said it had drawn upon its option to purchase a 9.47% TVK stake held by wholly owned TVK subsidiary Amerwind B.V. This option had been agreed on September 26. Thus, after the MOL transaction Amerwind B.V. no longer owned any TVK shares.

MOL's stake in TVK of 32.98% is just below the 33% legal limit over which any single shareholder must make a buyout offer to other owners. Gazprom has been estimated to have compiled more than 20% of TVK's shares. TVK stated on November 6 that Milford Holdings had acquired and registered a 13.5% stake in the company. There was an additional amount of shares believed to be controlled by Gazprom which raised suggestions that it might control as much as 23.7% of TVK's shares. TVK also said that CE Oil & Gas Beteiligung AG had bought a 5.2% stake.

TVK's EGM

TVK's EGM, held on November 3, did not go all MOL's way, but nonetheless MOL managed to gain control of half the seats on TVK's board of directors. The meeting increased MOL's representation on the board from one to four members. MOL's proposals to change TVK's statutes in order to strengthen its take-over defences were turned down. Both Milford and new shareholder CE Oil and Gas voted with their stakes at TVK's EGM. None of the two shareholders were known to hold any stakes in TVK before. Milford said it owned 13.5% of shares in TVK, while General Banking and Trust Rt (AEB), owned by Gazprom, had 4.12%.

MOL proposals to amend TVK's corporate statutes were supported by less than 75% of the votes, a limit which has to be reached in order to amend corporate statutes at any company in Hungary. MOL had proposed that any shareholders owning more than 2% of TVK's shares must publish the size of their stake. The proposal, if approved, would have increased the transparency of TVK's ownership structure. The meeting rejected a proposal to authorise the board of directors to raise TVK's share capital by 25% in each of the five years from 2001.

MOL has an option contract to buy BorsodChem's remaining 15% stake in TVK, but through November (prior to BorsodChem's aborted EGM) the position seemed to change constantly. BorsodChem was reported to have offered the 15% stake to Milford at one stage in exchange for its own shares. However, relations between BorsodChem and Gazprom have been fluctuating between lukewarm, cold and outright hostility. While MOL holds options to increase its current 32.98% stake in TVK, it has not yet decided to raise that stake further.

The new TVK board's most urgent task is to review the company's development plans. There is an undercurrent that believes that the chemical cycle will be on the upswing by 2003-2004. Consequently TVK will need to increase its capacity, and for that to happen plans need to be formulated in the near future.

Continuing confrontation?

After varying signs of defrosting and re-freezing of relations in the struggle between Gazprom and the Hungarian petrochemical sector Milford Holdings turned to the Borsod County Court in the first half of November to annul the sale contract of TVK shares by BorsodChem to MOL. By November 10, as relations appeared to renewing hostility, BorsodChem asked Milford Holdings to make a public offer for outstanding shares if its stake has reached the statutory 33% level.

Compromise with Gazprom?; consolidation issues

Gazprom's entry into BorsodChem and TVK has been enabled by the open capital markets that exist in Hungary. The state, or bureaucratic control, over many other parts of Central European chemical industry prevents similar type moves, at least for now. Gazprom has not found its path in Hungary straightforward and has had to change its strategy of thinking to a more co-operative approach. TVK has been rather powerless whilst its control has been dependent on the influence of MOL and BorsodChem. Meanwhile Gazprom has tried find common ground with at least one, if not both of these main players.

MOL could be a more likely prospect for co-operation than BorsodChem due to the general synergy with Gazprom in the hydrocarbon sector. The possibility that MOL might find a meeting of minds with Gazprom would moreover shed new light on the possibilities for integration in Central Europe. It could be said that the initial blanket resistance of Hungarian companies to Gazprom's involvement has given way to a more pragmatic approach. If Gazprom is not interested in withdrawal then some sort of accommodation will be necessary.

In light of the Gazprom intervention and also OMV's acquisition of a 9.3% stake in MOL the possible scenarios for consolidation in Central Europe are multiple. PKN Orlen again re-stressed in November its support for consolidation to face mounting competition from global players. MOL has expressed the principle that it is open to co-operation with potential investors. The need for consolidation is viewed by PKN as being important in order not to be exposed to the larger European players. A PKN-MOL-OMV consortium seems to be part of the thinking, although there are many other scenarios that could be envisaged.

BSL Petrochemical Plants, Capacities, Locations		
Product	kilo tpa	Location
Ethylene polymer grade	450	Böhlen
Ethylene chemical grade	60	Böhlen
Propylene	230	Böhlen
Butadiene	120	Böhlen
Benzene	320	Böhlen
(EB) Styrene monomer	280	Böhlen
Chlorine/Caustic soda	200	Schkopau
VCM	330	Schkopau
PVC business sold to EVC Schkopau	(300)	EVC-
Idpe	160	Leuna
PE compounds	25	Schkopau
Linear low density PE	210	Schkopau
Polypropylene	205	Schkopau
PET	145	Schkopau
Polystyrene, GP/Hi swing expandable PS	130	Schkopau
syndiotactic PS	40	Schkopau
C9 Hydrocarbon resins	36	Schkopau
eSB-Rubber	15	Schkopau
Solution elastomer	90	Schkopau
PB-Rubber	60	Schkopau
	25	Schkopau
Aniline	130	Böhlen
Glacial acrylic acid	48	Böhlen
Butyl acrylate	48	Böhlen
re-Dispersible powder Evac	12	Schkopau
extruded PS-foam	240 cbm	Schkopau
BSL Pipeline connections		
* Rostock-Böhlen for Böhlen steam cracker	Naphtha feedstock pipeline	
* Böhlen-Leuna	Ethylene	
* Böhlen-Schkopau butadiene, hydrogen	Ethylene, propylene, styrene,	
* Teutschenthal-Schkopau membrane chlorine plant	Brine pipeline to Schkopau	
* Böhlen-Teutschenthal	Ethylene to salt caverns	
* Böhlen-Litvinov Chemopetrol cracker with BSL cracker	Ethylene pipeline linking	

The capital value of Slovnaft has been increased after the subscription of 4,156,276 new shares at a nominal value of SKK 1,000 was successful. The measures were taken to subscribe the new shares jointly between MOL and Slovnaft. This has given Slovnaft an aggregated total value of SKK 7.9 billion which is an important step in the implementation of the strategic partnership between MOL and Slovnaft. The necessary approvals for the transaction, including approvals of the Anti-Monopoly Office of the Slovak Republic and the Hungarian Competition Office have already been received.

In addition to the agreed 36.2% stake in Slovnaft MOL is also expected to make a series of previously announced purchases from existing shareholders. The total investment of MOL could amount up to \$270 million and it would leave MOL as the largest single shareholder of Slovnaft. MOL is keen to devise an investment programme for Slovnaft to continue the strategy developed by the management over the past few years. In the refinery division according to Slovnaft, for example, the Environmental Fuel Project Apollo (EFPA) complex has enabled a reduction of sulphur dioxide emissions by 60%. The refinery put the EFPA complex into full operation in April this year. In March emissions of sulphur compounds amounted to 2,434 tons, but by May the figure had fallen to only 1,141 tons. Emissions in September were just 595 tons.

Unipetrol

Unipetrol's internal consolidation looks to have taken another step in November with the completion of the AliaChem and Paramo purchases. The Czech government approved the sale of its 70.9% stake in the

BSL

After the completion of the main project plans at the BSL complex in eastern Germany; involving the installation of new units, expansions and upgrades, the following table is provided with capacities and feedstock arrangements. As an observation BSL represents one of the most modern and advanced petrochemical complexes, not only as far as Central Europe is concerned but also in a global context.

Subsidies may have aided the extent and speed of the investment programme, but the market opportunity in Central Europe and further east in the CIS was the key factor influencing Dow to become involved. It may also worth be adding that the type of opportunity that Dow had in the Halle/Leipzig region will probably not occur very often. It is hard to envisage such a wholesale overhaul of production facilities being undertaken elsewhere in Europe.

The last of the fifteen new units installed at BSL, the solution elastomer facility, was made fully operational on May 26 this year. One of the most important investment projects of BSL's restructuring effort was the construction of a 430 km pipeline between Rostock and Böhlen, which is essential for the supplying the cracker at the Böhlen site. BSL became a 100% subsidiary of The Dow Chemical Company on June 1, providing the company with a bridge between the markets of Central and West Europe. Today BSL has approximately 2,300 employees and is the largest production site for plastics in the new federal states of Germany.

Slovnaft

Paramo refinery to Unipetrol for Kc 141 million. Canadian company Norex Petroleum, which lost the tender despite offering almost triple the domestic bid, is planning to file a complaint with the Anti-Monopoly Office. It claims Unipetrol has gained a lubricating oil monopoly through the purchases of Paramo and AliaChem. Unipetrol will now have to spend Kc 750 million by 2005 modernising Paramo according to the terms of a sale contract approved by the Cabinet.

Unipetrol's financial highlights for Q3 00 (Kc 000)		
(As of Nov 29 \$1 = Kc 40.4539, 1 euro = Kc 34.4662)		
	30/09/00	30/09/99
TOTAL ASSETS	73,765,812	67,370,279
Fixed assets	48,376,559	44,986,516
Intangible fixed assets	2,072,935	1,834,801
Tangible fixed assets	45,493,874	42,424,191
Financial investments	809,750	708,726
Current assets	23,492,446	20,779,770
TOTAL LIABILITIES	73,765,812	67,370,279
Equity		
	28,376,576	26,448,039
Registered capital	18,133,476	18,133,476
Profit (loss) of previous years	4,402,955	3,827,944
Profit (loss) of current period	2,905,394	1,795,621
Revenues from merchandise	8,165,059	7,002,171
Cost of goods sold	6,917,316	5,803,312
Sale margin	1,247,743	1,198,860
Production	46,567,221	28,602,395
Production consumption	39,278,887	23,934,850
Materials & energy usage	35,893,328	20,749,373
Services	3,385,559	3,185,476
Added value	8,536,078	5,866,406
Consolidated operating profit	4,407,496	2,546,842
Consolidated profit (loss) from financial operations -		
	917,814	1,019,229
Income tax on ordinary income	719,387	497,188
Consolidated ordinary income	2,770,295	1,030,425
Consolidated profit (loss) for current accounting period		
	3,782,024	2,282,215
Consolidated profit (loss) for the current period		
	2,905,394	1,795,621
ENTITIES INCLUDED IN THE UNIPETROL CONSOLIDATED FINANCIAL STATEMENTS		
Chemopetrol, a.s., Kaucuk, a.s. Benzina, a.s, Česká rafinérská, a.s., Agrobchemie, a.s, Chemopetrol doprava, a.s., B.U.T S.r.o.		

Unipetrol and Agrofert's subsidiary Agrobchemie agreed to pay Kc 815 million for a 49% stake in AliaChem from Chemapol Group. However, the purchase did initially require Anti-Monopoly Office approval. In addition to the purchase by Agrobchemie AliaChem has opened a tender for a smaller stake (16.5%) of its own shares which should be decided at the start of December. It is not known if Unipetrol intends to place a bid. If it went ahead it could bring its holdings to a majority in AliaChem.

The take-over of AliaChem is part and parcel of the restructuring which is taking place in the Czech chemical industry prior to the privatisation of Unipetrol. Spolana is also included in these plans and at the moment is in the process of divesting some unprofitable units. The viscose fibre plant has been put up for sale and this was followed the polyamide plant. The sale of these divisions include the full spectrum of production. Spolana considers that streamlining and refocusing production targets will make it more viable before entering Unipetrol.

The Czech government sees the main benefits of the merging

most of the major chemical companies under Unipetrol as helping the rationalisation of the production base and the reduction of unit production costs. Other advantages include bringing down fixed and overhead costs, and operating costs in purchasing, sales, marketing and distribution.

Unipetrol has expressed its support for the government policy. The strategy envisaged by Unipetrol will be aimed in trying to assess in detail the economic, technical, environmental and operational levels of individual plants. Based on the findings Unipetrol is expected to decide on closing production at inefficient or environmentally dangerous plants.

The government view has not been universally endorsed with some elements calling into question the financial strength of Unipetrol. Another concern is that the new holding will be a 'rather jumbled array' of companies with different businesses which will discourage potential single strategic partners. Unipetrol does not believe this to be the case as the management is prepared to make fundamental decisions on some of the group production facilities.

The intended restructuring process, which is to start after completing the consolidation procedure, should involve the rearranging of plants and technology. Some of these plants are currently dispersed in different companies and the goal would be to integrate some of these product lines.

However, the product lines will in principle be unchanged from the existing areas of Unipetrol's focus (i.e.

petrochemistry, distribution of fuels, and the production of plastics and agrochemistry). About six of them will appear, i.e. in the agrochemical sector where the production of ammonia and urea at Chemopetrol will be linked to the production of fertilisers at Lovochemie and Synthesia; in the area of plastics where a vertical chain is envisaged connecting the ethylene unit at Chemopetrol, production of PVC at Spolana and processing at Technoplast.

Unipetrol believes that it is of key importance that at this stage the production is restructured, not the ownership. The changes in the ownership structure should wait until after the privatisation of the state's share in Unipetrol. Unipetrol believes that it should be the strategic investor's right to decide if and how individual parts of the group will be re-arranged. This will allow the investor can sell the product lines which are not part of their long-term strategy.

A bearing that might have a factor on Unipetrol's future as a combined refiner and petrochemical producer is the 49% stake held by the IOC in Ceska Rafinerska. The IOC, consisting of Shell, Agip and Conoco, has the right of first refusal to purchase the 51% share in Ceska Rafinerska held by the government if it decides to sell the 63% stake in Unipetrol. The consortium members are waiting to see what the government decides before taking the issue further. The IOC does not anticipate that Unipetrol will transfer the Paramo refinery to Ceska Rafinerska before privatisation.

Petrochemicals **MOL's plans for TVK**

MOL has said that a decision about the construction of a new ethylene plant at TVK could be expected in early 2001 and the new plant could double TVK's ethylene capacity. The financing of this project will be the key question. MOL's strategy is based on the goal of expanding in the petrochemical sector and developing the links between its supply of naphtha to TVK and olefins. The priority task at TVK is to review the development programme and continue trying to sell TVK's plastics division. TVK will sell its entire plastics' division as soon as possible, but it has stressed not at any price.

The reasons for the need for more ethylene capacity, according to MOL, are related to the developments in polymer production at both BorsodChem and TVK. Demand in Central Europe is expected to continue growing at rates exceeding those of West Europe over the next decade.

More capacity for TVK is not a new concept as even at the end of last year TVK was expected to decide on new olefin facilities by mid 2000. These plans have been deferred due to ownership uncertainties, but the long term supply/demand balance projections remain broadly unchanged. MOL has proposed to authorise the TVK board to raise the company's equity which would be aimed at providing financing for the ethylene project. Although the plan failed to get two-thirds of votes at TVK's EGM, as Gazprom blocked the proposal, MOL still thinks that the capacity expansion project could go ahead and would eventually get TVK shareholders' approval.

MOL Q3 2000

MOL encountered losses during the third quarter due largely to the gas business. This was despite a strong profit growth recorded by MOL in production and refining. MOL's consolidated net income was Ft 23.057 billion in the first nine months of 2000, down from Ft 38.436 billion in the same period of 1999. MOL's gas and power division posted an Ft 80.9 billion loss in the first three quarters, compared to a Ft 11.9 billion profit in the same period of 1999. This was due to a 6% cap on gas price hikes in 2000 imposed by the government in June. In the third quarter alone, the loss in the gas and power division amounted to Ft 43.3 billion, partly due to the Ft 13.9 billion cost of writing down gas inventories. A 43% November 1 gas price hike for 500 industrial users, allowed by the government recently, shows that the state's stand is easing. However, further steps are needed according to MOL.

TVK Q3 2000

TVK Rt's Total Sales by Division (Ft million)		
(As of Nov 29 \$1 = Ft 310.600, 1 euro = Ft 264.627)		
Product	Q1-3 00	Q1-3 99
Petrochemicals	103,827	49,002
Olefin	24,333	10,125
HDPE, LDPE	50,983	28,334
PP	28,511	10,543
Other	4,649	6,257
Total	108,476	55,259

Increasing feedstock prices in the third quarter had a negative affect on TVK's profits. Naphtha prices increased on average from \$230/ton in January this year to \$276/ton (reported to be a 20-year high) by September. Quoted gas oil prices at \$222/ton in January increased to \$330/ton in September. Whilst earlier in the year polymer prices were keeping pace with feedstock costs, they started to lag behind in the third quarter with

polyethylene prices decreasing. Polymer margins, reflecting TVK's feedstock yields, have been in decline with 58.4% of the total 68% fall (seen in the period January-September) occurring in the third quarter. Sales of the spun-off plastics' processing divisions (as from April 1, 2000) are included in TVK Rt's non-consolidated sales only in Q1 2000. This appears in the "other" category in the adjacent table.

TVK Production (unit-kilo tons)		
Product t	Q1-3 00	Q1-3 99
Ethylene	275.6	209.1
LDPE	82.6	72.2
HDPE	147.3	115.9
Polypropylene	165.4	91.6

Despite the downturn in margins, TVK's expanded capacities, coupled to increased capacity utilisation and improved yields, helped offset part of the negative effect of increasing feedstock prices. Thus, TVK Rt.'s profitability in Q1-3 2000 (consolidated gross profit Ft 25,078 million) significantly exceeded the Q1-3 1999 period (Ft 17,141 million). The change in consolidated sales was caused

mainly by the 96% increase in TVK Rt.'s revenue. Petrochemical business units accounted for 95.7% of TVK Rt.'s net sales, from which olefin and polymer products represented 22.4% and 73.3% respectively.

The utilisation of TVK's cracker ran at 102% in the first three quarters this year. Polymer plants ran at a range between 82-98% of capacity. The LDPE 1 plant at Tiszaújváros ran at just 83.4% being limited by tight ethylene supply. The PP II plant was run at a reduced rate of 18.2% due to insufficient propylene supply and also profitability considerations.

Oriana at Kalush provided TVK with 21,500 tons of ethylene in the first three quarters, with the third quarter only contributing to 5,400 tons. LUKoil-Neftekhim's involvement at Oriana could start showing effect by early next year. TVK sold 62,900 tons of ethylene to BorsodChem, 43% more than in the period Q1-3 1999. The increase in sales was due to BorsodChem's expanded VCM requirements.

TVK's Feedstock Consumption (unit-kilo tons)		
Feedstock	Q1-3 00	Q1-3 99
Naphtha	587	673
Gas oil	42	137

Improvements in efficiency

TVK's production efficiency has significantly improved this year. Annual ethylene capacity has increased by 70,000 tons, polypropylene by 140,000 tons, HDPE by 10,000 tons and LDPE by 5,000

tons. Following an improvement in the raw material mix and feedstock yield (down from 3.007/kg of feedstock per kg of ethylene in Q1-3 1999 to 2.939 kg in Q1-3 2000) TVK was able to increase ethylene production by 32% with only a 29% simultaneous increase in feedstock consumption.

Unipetrol Q3 2000

Unipetrol posted a consolidated net profit of Kc 2.905 billion after three quarters, up 62% from Kc 1.796 billion in 1999. Sales amounted to Kc 53.6 billion in the period January-September, up 8% to Kc 36.166 billion in the same period of 1999.

BorsodChem Q3 2000

BorsodChem's Financial Highlights		
(As of Nov 29 \$1 = Ft 310.600, 1 euro = Ft 264.627)		
	Q1-3'99	Q1-3 '00
	<i>Million Ft</i>	<i>Million Ft</i>
Sales revenues	49,779	80,585
Operating profit	4,789	10,828
Profit before taxation	3,702	8,525
Net income	5,048	11,383
Shareholders' equity	43,181	73,015
Total assets	57,371	145,909

BorsodChem's profits have increased substantially this year, with the company reporting net income up 115.5% for the period January-September. The consolidation of the aniline plant BC-MCHZ into the BorsodChem group has significantly changed the balance sheet. 79.7% of BorsodChem's total revenues were derived from export in the period Q1-Q3 this year, with 49% of revenues

from either domestic or Central European sales.

As per normal BorsodChem underwent maintenance in the third quarter which resulted in lower production than the other quarters. 23.8% of the company's annual budget for maintenance was spent during the shutdown from the end of July and the 3-4 weeks in August. In addition to maintenance work, during the shutdown BorsodChem made capacity expansion investments at the PVC and MDI units.

BorsodChem's Production (unit-tons)				
Production	MDI	PVC	VCM	Aniline
Q1-Q3 99	28,760	165,887	130,535	-
Q1-Q3 00	34,497	193,424	153,857	30,603

The third quarter was slightly less profitable than the second for BorsodChem. Feedstock costs remained high, but PVC prices fell by

7.5% due to decreasing demand in the summer. Opposite are listed BorsodChem's main production figures. The production of aniline started only from April 27 this year after the acquisition of the MCHZ unit.

The major issue for BorsodChem is the question of ethylene supply which explains its recent strategy over TVK and concern over the major shareholders.

In addition to co-operation with MOL over TVK BorsodChem and MOL have developed jointly a 50-50 joint

venture trading subsidiary in Milan under the name B.C.-M.C. s.r.l. In the near future BorsodChem is going to start up the first Hungarian Independent Power Plant (IPP) Project with 50 MWh capacity at Kazincbarcika, in which other co-investors are MOL and ÉMÁSZ.

BorsodChem's Plant Expansions (tpa)		
<i>Product</i>	<i>Old capacity</i>	<i>New capacity</i>
PVC	290,000	330,000
MDI	52,000	60,000

During the period Q1-Q3 this year BorsodChem achieved a level of operating profit of Ft 10,828 million. This represented an increase of 126.1% over the Ft 4,789 million in the same period last year. Third quarter profits

fell against the second quarter due to the cost of feedstocks.

BorsodChem's Product Income (Forints)		
(As of Nov 29 \$1 = Ft 310.600, 1 euro = Ft 264.627)		
	Q1-3'99	Q1-3 '00
	Million F	Million Ft
PVC resin		
Domestic	3,308.0	5,269.0
Export	14,857.0	29,412.3
Subtotal	18,165.0	34,681.3
PVC compounds		
Domestic	1,533.4	1,593.6
Export	2,045.3	2,396.7
Subtotal	2,103.2	3,990.3
MDI products		
Domestic	84.6	153.4
Export	10,366.5	12,196.3
Subtotal	10,451.1	12,349.7
Caustic soda		
Domestic	1,943.2	1,741.2
Export	1,571.9	1,574.8
Subtotal	3,515.1	3,316.0
Aniline		
Export	0.0	2,057.7
Plastic semi-finished and finished products		
Domestic	2,997.8	3,350.6
Export	2,458.8	3,777.8
Subtotal	5,456.6	7,128.4
Other product		
Domestic	3,265.0	4,287.9
Export	5,347.5	12,774.1
Subtotal	8,612.5	17,062.0
Total sales	49,779.0	80,585.4
Domestic sales	13,132.0	16,395.7
Export sales	36,647.0	64,189.7

The company incurred a Ft 4,163 million increase of other current assets generated from advances paid for investments, the TDI licence fee and the growing amount of VAT to be refunded. At the same time a Ft 19,695 million growth of long term liabilities was noted due mostly to the 15% of TVK shares. Due to the acquisition of the MCHZ aniline plant and the share investments made in TVK Rt, BorsodChem's total liabilities grew by Ft 58,471million, or 416.5 % more than in 1999.

For the last year BorsodChem's total assets have nearly grown by two and half fold to Ft 145,909 million due largely to BC-MCHZ s.r.o.'s consolidation into the group. Among the company's assets, the stock of current assets went up by 185% equalling to Ft 41,482 million. Net amount of stocks went up by Ft 5,396 million, 93.2% more than last year, caused by higher raw material prices (VCM, styrene, aniline). This was in addition to the increase in the production cost of stocks.

The share of PVC resin in BorsodChem's total sales for the first three quarters increased to 43% from 36.4% last year. This owed largely to the price increase of PVC resin which was much higher than for any other product. While the volume of sold PVC resin grew by 7%, the sale revenues increased by 90.9%. During the first three quarters this year 4,900 tons of PVC resin from toll work was sold.

For MDI the increase of sales volumes by 21.2% resulted in an 18.2% increase in sales' revenues.

These figures also indicated the gradual, low scale erosion of product prices until the beginning of September. The sales' revenues of aniline were Ft 2,057.7 million, excluding the volume of aniline used captively by BorsodChem.

TDI BorsodChem Rt will save around Ft 50 million as a result of a preferential 0% tariff on products supplied by Chisso Engineering Co for the investment in the new TDI plant. BorsodChem is investing Ft 35 billion in the entire project. The 60,000 tpa TDI plant is scheduled to start up from 2002. Test production is scheduled to begin in September 2001. The company projects revenues of Ft 24 billion annually when the project reaches full production capacity. Talks are still underway with MOL and other suppliers for the purchase of toluene.

Plastics Pannonplast's nine-month net profits for this year grew 4.3% against 1999 on better sales, but its gross margin has narrowed due to high raw material costs and slack demand. Pannonplast said that nine-month net profits rose to Ft 1.247 billion from Ft 1.196 billion, while net sales surged 30.4% to Ft 18.8 billion from Ft 14.421 billion. The sharp increase in raw material prices has notably affected Pannonplast's 2000 profits. In some cases where higher costs-of-goods-sold were accompanied by stagnant demand (e.g. consumer packaging) the impact was even more noticeable. As a result Pannonplast's gross margin ratio narrowed to 31.0% from 33.9% in the first nine months of 1999.

Export sales of Pannonplast rose by 55% and accounted for half of total net sales, compared with 41.6% in the corresponding period last year. While revenues of Pannonplast's foreign subsidiaries were rising

sharply, the domestic consumer packaging sector continued to stagnate, especially in food packaging. The company's operating profit before tax rose by 11.7% to Ft 1.748 billion.

Polish privatisation IBM & F, the Treasury Ministry adviser on the privatisation of Polish bulk chemical producers, has recommended that the Treasury does not consolidate its four main chemical producers. According to IBM&F this would be too costly as the four companies located at Pulawy, Kedzierzyn, Police, and Tarnow, are too diverse in their product range and financial situations. Potential sector investors also might not welcome consolidation, preferring to invest in the most profitable divisions of specific plants. However, the Treasury Ministry, in addition to the managers from the Pulawy and Police plants, tend to prefer financial investors for the complete business.

Polish Chemical Output (unit kilo tons)		
<i>Product</i>	<i>Jan-Sep 00</i>	<i>Jan-Sep 99</i>
LDPE	102.4	101.7
PP	90.2	82.7
PVC	207.3	189.8
Caustic Soda	297.1	245.6
Nitrogen Fertilisers	1,144.0	938.7
Phosphate Fertilisers	403.8	400.5
Synthetic Fibres	74.5	59.4

BASF Polska has expressed some interest in these developments and may target some of the production units. However, the prospect that a single investor would be prepared to take on the four companies as they stand today, without rationalisation, seems remote. Moreover, there is a feeling that owing to a current surplus in European fertiliser production there will be little interest in complete foreign take-overs. Taking

these factors into account there could be more of a possibility that these companies will be sold off in separate parts, such as the OXO alcohol complex at Kedzierzyn which could attract strong interest.

This view has been confirmed by several potential investors which may be interested in parts of the complexes but not all. Thus, it may be that the privatisation deals offered by the Ministry of Economy may have to be sufficiently flexible to attract serious offers. Most of the chemical companies are working hard to carry out reforms to make themselves more attractive to potential buyers.

Company news The board of directors of the Hungarian Privatisation and Holding Co. (APV Rt) has sold the majority stake of Nitrokemia 2000 Kft to Nitrokemia Invest Rt. Nitrokemia Invest Rt, which Nitrokemia 2000 Kft's management founded, bought 85% of the stocks for a total value of Ft 460 million. APV Rt has offered the rest of the shares to employees at a preferential price. APV Rt would no longer guarantee a Ft 2 billion company loan due to the sale of the company.

The Slovak government is trying to sell the CHX producer Chemko at Straszke, with the aim of completing the sale by the end of the year. If possible, efforts would be made to convert some of the production units into independent subsidiaries before the sale is concluded.

AliaChem subsidiary Synthesia has asked for financial support from the International Commission for Elbe Protection to help clean up environmental damage. The state will likely provide 25% of the necessary Kc 2.3 billion. Synthesia recorded a 21% more sales in the first nine months totalling Kc 3.9 billion. AliaChem reported an operational profit of Kc 269.2 million for the first three quarters of 2000, up Kc 183.3 million against 1999. Revenues totalled Kc 7.1 billion, up Kc 217.6 million.

Proctor and Gamble has announced that it will invest \$150 million in modernising its Polish diaper plant. The investment will triple production, allowing P&G to supply more than twenty five countries.

Spolchemie posted January-September sales of Kc 2.3 billion and expects the figure to reach Kc 3 billion by the end of the year. Spolchemie is preparing to sign another joint venture agreement with Reichhold Chemicals, this time concentrating on epoxy resins. The existing joint venture is focused on unsaturated polyester resins. Reichhold is not believed to be interested in taking an equity stake in Spolchemie.

SOUTH EAST EUROPE

Oil refining The Dutch-based Rompetrol Group BV signed a deal with the Romanian State Ownership Fund (SOF) on November 1 to buy a majority stake in Petromidia. This deal also involved plans to invest \$205 million to upgrade the refinery. Rompetrol Group BV has agreed to pay \$50 million and take over the refinery's debts worth around \$340 million. Apart from investments in upgrading projects worth \$205 million over the next five years, the package also includes \$20 million earmarked for environmental protection. The deal ended several years of unsuccessful attempts by the SOF to sell its 65% stake Petromidia.

Initially under new ownership Petromidia will operate at a capacity level of 2.75 million tpa and eventually will reach its nominal capacity of 4 million tpa. The refinery, built in the 1970s with Western technology, can

process a wide range of crude oils. Its output also includes jet fuel, ethylene, propylene and lubricants. The strategic location of Constanta enables easy access for Petromidia to supplies of crude coming from the Caspian Sea and the Gulf in addition to the markets of Turkey, Georgia and Armenia.

PVC The Romanian SOF has stated that Wednesday Exall Resources Ltd. of Canada was the successful bidder for a 53.258% stake in local chemical plant Oltchim. Negotiations started in November between the SOF and two companies Exall Resources Ltd of Toronto and Romarta 2000 SRL of Bucharest. The price required by the SOF will be 1,000 lei per share with the share capital of the company standing at 323.5 billion lei. A local investment company Oltenia Financial Investment Fund (SIF) has 7.9%, the small shareholders have 38.6% and the managers of the company 0.082%.

Details of the Exall bid will be made available when a share purchase contract is signed. Negotiations with the Canadian company are under way on other aspects of the contract covering sell-off of the stake in Oltchim.

Oltchim is hoping that new export accords between Romanian and Russian companies, part of co-operation between the two governments, could have an important effect on chemical exports from Romania. Other regional trade possibilities include Yugoslavia which has suddenly become a market of interest since Milosevic lost power. Delegates of Romanian manufacturing and foreign trade companies met on November 21 in order to assess the business opportunities. The two countries could collaborate in fields such as oil processing, chemical and steel melting industry, food and non food products, etc. Furthermore, Danube traffic could resume next summer.

The Bulgarian State Claims Agency submitted to the Varna District Court in November a request for opening an insolvency procedure against Polymeri. The company owed 1.5 million lev in insurance to the National Insurance Institute and did not observe the agreement for extended payment of the sum. EDC production has been stopped by Polymeri due to LUKoil-Neftochim being unable to supply ethylene.

Fertilisers The Bulgarian fertiliser producer Chimco was forced to stop the production of ammonia and urea at Vratsa for ten days due to the high prices of natural gas. The increase in the price of the gas set by Bulgargaz at 16.42% put the company in a difficult position. With the new tariff for natural gas compared to the price of urea, Chimco is losing over \$300,000/month. The plant has recently operated at around 50% of its capacity for ammonia and 30% for urea.

After the stoppage at the end of November the installations for urea were to be loaded to 25% and for ammonia 40%. By the middle of January the capacities are expected to be back at rates of 50%. The American owner of Chimco IBE Trans has prepared an investment programme for the Ministry of Economy. The programme focuses on a thorough change of the urea production line and construction of a clearing station.

Bulgargaz was forced to implement the price rise due to high international prices for gas. Even so, the company will finish the year with a loss of over 75,000 leva. There was a delay by three months until September for imposing higher prices for gas.

Other Bulgarian producers Agropolychim and Neochim continued to operate despite the gas price rise. Agropolychim expects to produce 154,000 tons of fertilisers this year, 55% of which will be sold in the domestic market. The plant has undergone a full maintenance shutdown for a month and a half recently and is now working at full capacity. For the maintenance the owner Acid and Fertilisers invested 9 million leva including new installations and the delivery of an additional electric station.

COMMONWEALTH OF INDEPENDENT STATES

Russia

Russian chemical production is estimated by the Russian Ministry of Economy to have increased by 15% in the first ten months of 2000 against 1999. The trend continues to be upwards in spite of fears of a slowdown in the second half of the year. Continuing high oil prices are a major influence on Russian GDP helping to sustain demand. It might be conceivable to expect some sort of slowdown of percentage improvement rates in production over the next few months guessing that high double digit rates cannot continue for long.

The safety issue in chemical production is certainly becoming a major issue as plants try to increase capacity. SIBUR-Neftekhim is not alone with this problem as just in the past month there have been several major accidents. On November 24 a gas explosion occurred at the Ufaneftkhim complex resulting in the death of three people and putting nine in hospital. The explosion took place at the sulphuric acid unit.

Salavatnefteorgsintez encountered a fire at its ethylbenzene unit on November 7 following a gas explosion. The fire put two people in hospital and put three production units out of action.

Kazanorgsintez suffered an explosion in late November killing one person. The examinations of the causes of these accidents are likely to show that insufficient funds have been devoted to safe production policy, and that companies will have change a large part of their working practices.

Oil refining LUKoil could take a majority stake in the NORSI refinery soon which would provide a major addition to LUKoil's refining activities. Broader co-operation between LUKoil and NORSI this year has resulted in a gradual increase in crude deliveries to the Kstovo refinery. The Nizhniy Novgorod Administration and LUKoil have been in discussions over the possibility of incorporating NORSI into LUKoil. The corresponding documents will be signed probably in December "if nobody interferes in the process", according to the Nizhniy Novgorod Governor.

In late October the Slavneft-Yaroslavlnefteorgsintez refinery announced its plans to construct a new MTBE unit. This will enable an increase in the production of high octane gasoline at the Yaroslavl refinery and increase economic efficiency. The MTBE unit is being planned at a capacity of 32,000 tpa for which the capital required has been estimated at \$10.6 million. This is a considerably lower estimate than for international projects. Keeping the costs down will depend on purchasing Russian equipment. From the start of November Slavneft-Yaroslavlnefteorgsintez started the production of European quality gasoline.

Petrochemicals **Nizhnekamskneftekhim** Nizhnekamskneftekhim reported a 2,014 million rouble net profit for the period January-September 2000, up 7.7 times against the same period of 1999. Sales' proceeds amounted to 14,021 million roubles, up 1.9 times against the 7,233 million roubles in January-September 1999. However, the cost of sales for the company increased by 95.3% to 10,148 million roubles. Current assets dropped 2.1 times against the same period of 1999 to 2,063 million roubles. Account payable dropped by 27.4% to 3,072 million roubles as of July 1, 2000. This was accounted for by the gradual reduction in barter based transactions.

For the longer term strategic outlook Nizhnekamskneftekhim has been emphasising plans for increasing production levels and reducing unit costs of production. The plans focus on the introduction of new energy technology, and the reconstruction of the ethylene complex. The aim is to increase ethylene capacity to 650,000 tpa which is higher than earlier planned. Ethylene is required for both captive consumption and merchant market demand in the Volga-Urals region. Other plans include developing isoprene production and furthering progress in the joint venture with BASF subsidiary Elastogran for polyurethane production. The venture Elastokam was founded in April this year.

The Nizhniy Novgorod region has been supplied with of the first four of the twelve steel reservoirs ordered by SIBUR-Neftekhim. Each of these reservoirs will have a capacity of 600 cm and will provide the future raw material basis of the company. These reservoirs are being supplied by the Izhorskie zavod from St Petersburg and the four delivered are at present in warehouses at Dzerzhinsk. They will undergo examination over the winter and are expected to be transferred to Kstovo next spring for installation.

The decision to install the additional reservoir space was taken after the creation of SIBUR-Neftekhim in December last year. Since the start 2000 SIBUR has increased the supply of raw materials to Kstovo by rail but this has created serious technical problems. The local station has only been capable of taking 200 wagons at most at any one time. The introduction of new reservoirs will give more flexibility for raw material supplies with the aim being to increase levels by 50% from the current 40-50,000 tons/month. This will allow an increase in the production of ethylene at Kstovo, ethylene oxide and glycols at Dzerzhinsk, and the new polyethylene plant planned also for Kstovo.

SIBUR-Neftekhim has been facing pressure from the Anti-Monopoly Commission in the Nizhniy Novgorod region over the high prices charged for gas produced nitrogen to Orgsteklo and Sintez at Dzerzhinsk. A monopoly position held by SIBUR-Neftekhim has allowed the company to charge 1,200 roubles/ton whereas there was a view by the Anti-Monopoly Commission that the price should be between 692 to 725 roubles/ton. Eventually an agreement was reached at 700 roubles/ton.

Polystyrene Nizhnekamskneftekhim and BASF have outlined their plans for the creation of a joint venture for the production of polystyrene at Nizhnekamsk. The joint venture is expected to be established in March 2001. The project plans include a 40,000 tpa polystyrene EPS plant scheduled for start-up in 2003 and a 120,000 tpa polystyrene impact plant for 2004. Nizhnekamskneftekhim has also mentioned the possibility of a 100,000 tpa polystyrene extrusion plant for 2005. The total capital expenditures for the EPS and impact polystyrene plants will amount to about 100 million euros, making it the largest sum a foreign company has invested in the petrochemical and plastics' sector in Russia.

EPS and PS are earmarked to be sold primarily in the Russian Federation, but there will be some reliance on the export market. BASF will be in charge of the sales' activities. The construction industry is the most important market for EPS, which BASF sells under the brand name Styropor®. The joint venture between BASF and Nizhnekamskneftekhim will be operated on a 50/50 basis, although the structure has yet to be determined.

Ethylbenzene and styrene monomer production at Nizhnekamsk may need to be expanded to supply the polystyrene units. There are suggestions from Nizhnekamsk that styrene monomer capacity could be increased up to 550-600,000 tpa, but the expansion could depend on a number of conditions.

Current consumption of polystyrene in the CIS is relatively small with per capita consumption estimated at 2-3 kg, considerably lower than in developed countries. Both Nizhnekamskneftekhim and BASF "are anticipating a positive market development, and can therefore imagine building up and expanding the business along the styrene value-added chain at a later point in time."

Fibres SIBUR has signed contracts with Inamerica LLC, Degussa GmbH and Ecotex for equipment to produce nylon and spandex yarn. The investment is part of the programme at Volzhskiy Khimvolokhno.

Detergents Henkel is about to complete negotiations for the acquisition of Pemos, the second Russian largest soap powder producer, from Alfa-Bank. The deal is estimated at \$12 million, and, if the deal takes place, Henkel could control up to 30% of the Russian soap powder market. Production capacity of the plant amount to 120,000 tpa. For 2000, the company is likely to produce about 60,000 tons, which will account for around 15% of Russian soap powder market. Alfa-Bank is the largest shareholder in Pemos controlling 84.5% via its affiliates.

Methanol & Fertilisers Metafrax produced 563,800 tons of methanol in the period January-September 2000, 38.7% more than in the same period in 1999. The largest shareholder in Metafrax is the bank Ural FD with a 49.2% stake. In October Gazprom subsidiary Mezhtregiongaz and financial group Interkhimprom established a new fertiliser group ZAO "Agrokhimpromholding". This will initially include fertiliser producers AO "Mineralnye Udobreniya" at Perm and AO "Azot" at Berezniki. Interkhimprom is a venture formed between Gazprom, Russian Railways and Solvalub. Interkhimprom controls capacities in Russia for ammonia at 4 million tpa, urea at 1.9 million tpa, ammonium nitrate at 4 million tpa, complex fertilisers at 1.7 million tpa, and methanol at 500,000 tpa.

Another Gazprom subsidiary Azot at Kemerovo reported 456 million roubles in net profits for January-September 2000, up by 718% against the same period of 1999. Sale proceeds rose by 105% to 3,605,264,000 roubles. However the cost of sales went up for Azot by 77% to 2,762,861,000 roubles.

In January-February 2001 the construction of a new liquid chemical terminal will start on the island of Vyisotski near the Leningrad region. The terminal will be capable of exporting up to 1 million tpa each of methanol and ammonia. Two reservoirs will be constructed for the storage of ammonia (30,000 tons each), and two reservoirs for methanol (20,000 tons each). The project investment will amount to around \$75 million and operations could start as early as 2002. The Leningrad region is believed to be backing the project.

CFCs CFC production is finally on the verge of being halted completely in Russia. A grant of \$24.7 million has been made by the World Bank to cover the costs of closure of Russian CFC plants. This sum will also include the costs for Russian and foreign monitoring services for closing down plants. The units are located at Altaikhimprom in West Siberia, Kaustik and Khimprom both at Volgograd, Galogen at Perm in the north Urals, Kirovo-Chipetskiy Chemical Combine, and the Redinskiy plant in the Tver Oblast. These companies jointly have the capacity to produce around 140,000 tpa of CFCs. This is estimated to amount to 47% of total world capacity at present. As from December 20 this year their production will be prohibited in Russia. From November 20 production of CFCs required approval by the government.

Aromatics & compounds As mentioned last month, the shortages of benzene in Russia have limited the amount of caprolactam being produced by the three producers. The situation is believed to have seen some improvement which is helping to revive caprolactam production. In the first three quarters this year Russia exported around 135,000 tons of caprolactam to the Asian countries of China, Taiwan and South Korea, compared to around 100,000 tons in the same period last year. Of the producers Azot at Kemerovo has invested around \$400,000 in expanding its flaking capacity by 1,000-1,500 tons/month, increasing the total to roughly 7,500 tons/month. SIBUR, and other companies affiliated with Gazprom, hold about 68% stake of Azot.

Omsk Kaucuk has restarted its phenol and acetone units, according to local sources in Omsk. Sibneft is the

strategic investor in Omsk Kaucuk and is undertaking efforts to integrate the production facilities into a vertical holding company. There are also plans to complete a unit that will improve the quality of phenol produced.

On November 14, the arbitration court in the Tula region upheld an earlier decision for the bankruptcy of Orgsintez at Novomoskovsk. This decision was taken on 7 July this year. At the time the company was placed under the control of external administration in October 1998, its debts on credits totalled 202.4 million roubles. The continuing problems with debt repayment mean that there is little prospect of a restart of production facilities. Units include maleic anhydride where there is no other Russian production and product is not easy to find from other sources.

Synthetic rubber The Tatarstan government has decided to sell a 72.49% stake in the Kazan synthetic rubber plant. Before the end of the year Tatneft plans to take a controlling share package in the Yefremov synthetic rubber plant in Tula Region. The plant will be included in a single tyre production integrated chain with Nizhnekamskshina, in which Tatneft similarly intends to acquire a controlling stake by the end of the year.

These transactions are being carried out through Tatneft-Neftekhim which is a 100% subsidiary of Tatneft. In June this year, Tatneft reported having bought 48% of the shares in Nizhnekamskshina and the company intends to raise this to a controlling stake by December 1. The tyre plant, which receives around 50% of its materials from Tatneft, has been increasing production throughout 2000. After taking charge at Yefremov Tatneft plans to double production, from where rubber will go to supply Nizhnekamskshina. Tatneft-Neftekhim also plans to invest \$30 million to start lubricant oil production (30,000 tpa) at its leased assets at Nizhnekamskneftekhim in 2001.

Nizhnekamskneftekhim has registered a name for its butyl rubber called Butylkam. The butyl rubber plant was set up initially in 1973 and by 1975 capacity had reached 30,000 tpa. This increased to 45,000 tpa by 1988 and to 60,000 tpa by 1999. Around 85% of production is exported to Europe, South East Asia, North and South America.

Belarus

SIBUR announced on October 27 that it had created a joint venture with Belneftekhim called ZAO "Belneftekhim-SIBUR". The most important producers in the joint venture will include Polimir and Naftan, both at Novopolotsk, Khimvolokhno at Mogilev, Khimvolokhno at Svetlogorsk, and Lakokraska at Lida. Other chemical producers will include Khimvolokhno at Grodno, Belshina at Bobruisk and the Borisovsky works of plastic goods. SIBUR believes that it can raise capacity utilisation to 80-100% from the relatively low levels experienced by the producers at present.

Taking the Khimvolokhno plant at Mogilev, for example, only 60-65% of capacity is being used which means that there is plenty of scope for expansion. At present Khimvolokhno is exporting about 6,000 tpa of fibres to the USA, now the second largest market for the company after the Russian market. SIBUR will be aiming to increase production and export volumes at Mogilev.

Since the spring this year SIBUR has been supplying liquid gases, naphtha and synthetic rubber to the Belarussian chemical industry. In 2001, SIBUR plans to supply the petrochemical plants in Belarus with more than 2 million tons of raw materials. This will include feedstocks such as gas condensate and chemical monomers and intermediates such as benzene and ethylene glycol.

Ukraine

The polyethylene unit at Oriana's Polyolefin division was scheduled to restart production on November 23. The restart was facilitated by OOO "LUKoil-Neftekhim" following the recent tender. Gas oil supplies being delivered by LUKoil to Oriana will allow the polyethylene unit to achieve a utilisation rate in the range of 70-75%. After the hdpe unit the VCM unit, Oriana's Dianat division, will receive attention.

The Oriana olefin complex was scheduled to restart production in early November after a yet another stoppage of two weeks due to shortages of gas oil feedstock. The major difference this time, compared to other restarts, is that the feedstock supply from LUKoil looks to be far more continuous. LUKoil was expected to provide 10,000 tons of gas oil immediately in order to revive production with plans to deliver more raw material in the coming months. The maximum amount of feedstock required for Oriana in one year is estimated at 1.2 million tons of gas oil.

From the outside it is still not entirely clear if LUKoil and Gazprom are working in tandem on Oriana, or are in fact in direct competition. The issue of debt remains outstanding and until a workable solution is found there are question marks over the sustaining a revival of production at Oriana. Gazprom is thought to have been

favoured by the German banks to take a stake in the Oriana joint venture, as it was more likely to find a western partner capable of repaying the debt accrued largely from the construction of the polyethylene plant at Kalush.

Another strand of thought is that the World Bank is putting extreme pressure on the Ukrainian government to introduce foreign investors into privatisation deals, and by definition that means investors from outside the CIS. The lack of transparency in Ukrainian privatisation deals has been a major stumbling block in the country's progress in the past few years. LUKoil seems to have won the first stage for Oriana, but SIBUR is expected to contest the issue if possible. LUKoil-Neftekhim and Oriana have already agreed to create a joint venture at Kalush.

More signs are emerging that chemical output in Ukraine is starting to stabilise. The volume of physical production in the chemical sector increased in the first ten months of 2000 by 60% compared to the same period in 1999. Put into context it merely represents a recovery after the substantial declines in recent years. Increases were noted at the Crimean Soda Plant, Azot at Severodonetsk, Sumykhimprom, and Plant of Polymer Materials at Kiev. Probably one of the key factors this year has been the reduction of barter trade in chemical products, estimated recently at around two-fold less than in 1999. Despite an improvement in local demand domestic chemical producers still remain dependent largely on the world market for product sales.

The petrochemical sector in Ukraine recorded a 30% increase in volume in the first ten months this year, although barter trade remains prominent.

In the fertiliser sector OAO "DneprAzot" has been gradually increasing the production of calcium nitrate after repairs and hopes to have the plant running steadily by the end of the year. DneprAzot also plans to construct a new calcium nitrate plant at a capacity of 50,000 tpa, the same as the existing plant. DneprAzot plans to use the calcium nitrate for the production of complex fertilisers.

In the period January-September 2000 Azot at Cherkassy increased urea production by 15.7% against 1999 reaching 452,828 tons. Ammonia production totalled 604,550 tons for the first nine months, 9.9% higher. Utilisation rates for urea and ammonia were 91.5% and 94.8% respectively, compared against 79.1% and 86.3% in 1999. The major shareholder in Azot is Thermosyntex in Liechtenstein with 91.141%. The caprolactam unit at Cherkassy is operating after several years of forced stoppages. A caprolactam flaking unit is being installed by Azot, scheduled to come on stream in the early part of 2001. This will enable Azot to sell flake on the merchant market for the first time.

There is some progress in the processing sector which is contributing to a recovery in domestic demand patterns. In the first quarter of next year, for example, Kievkhimvolokhno will start the production of polypropylene materials, with the installation of capacities for 100,000 big bags per annum and 10 million sacks. The demand solely from the Ukrainian sugar industry amounts to 60 million sacks per annum. The project has required around \$1 million of investment, although it is not clear which bank has provided the funds.

To help the project there has been co-operation with a Swedish partner KNP following an agreement signed with Kievkhimvolokhno in September this year. Kievkhimvolokhno specialises in the production of polyamide and polypropylene fibres, for which it has a capacity of 1,500 tpa and 1,200 tpa respectively.

The Ukrainian-German joint venture Zhitomir-Polysaks has in November started the production of big bags for the transportation of fertilisers, cement, etc. The venture has the capacity to produce 40,000 big bags per month, in addition to other products such as polypropylene sacks. The production facilities are currently running at 100%. Zhitomir-Polysaks was founded in 1995 with the German company Polysaks controlling 78% and Zhitomir Khimvolokhno 22%.

Kazakhstan

The Kazakh government has decided to create a new shareholding company at the Pavlodar refinery. The largest shareholder in the new company with 51% will be Mangistaumunaygaz. Following several years of changing ownership the new company will be called the Pavlodar Petrochemical Plant. National oil transportation company KazTransOil has been handed the remaining 49% state share.