Chemical Information Resources for East Europe and CIS

CIREC MONTHLY NEWS

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

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

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Features from the July 2003 issue

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- Spolana will try to settle last year's loss of Kc 491.3 million from future profits. Although the company has been faced by a succession of losses over a good number of years there is a hope that it could make a moderate profit in 2004. In 2001, the company was Kc 699.7 million in the red.
- E.ON has concluded a contract with the MOL group to supply 1,036 gigawatt hours of electricity per annum for an unspecified period. E.ON will supply 11 of MOL's sites that have reached eligible status on the recently liberalised market as well as TVK Rt. In addition to the Hungarian sites, E.ON will also supply electricity to Slovnaft through E.ON's local subsidiary, ZSE.
- The first quarter's results from the Russian petrochemical industry showed a welcome increase over last year with most products seeing rises, most notably methanol. Production increases ranged from 4-6% on average across the board. The most noticeable fall in the chemical industry overall was seen in the production of plant protection agents which fell by 40.9% in the first quarter.
- In the first five months of 2003 SIBUR produced 745,000 tons of liquefied hydrocarbon gases against 340,000 tons in 2002. The first half of last year was a very difficult time for the group, but there has been a good recovery in 2003. The group produced 222,000 tons of monomers in the first five months against 96,000 tons last year), and 209,000 tons of synthetic rubber against 89,000 tons.
- On 20 June the planned shutdown of the ethylene cracker started at Nizhnekamsk, lasting for about a month. During the shutdown a rrepair of compressors will be undertaken by the company Thomassen, whilst steps will also be taken for completing the upgrade of ethylene capacity to 600,000 tpa.
- The polystyrene plant at Nizhnekamskneftekhim was officially completed on 14 June. On 16 June the plant started receiving steam and ethylbenzene. The start-up and adjustment operations are being controlled by Atofina.
- Penoplex, which belongs to KINEKS-holding in the Leningrad region, expects to finish the construction of a new polystyrene plant at Kirishi. The capacity of the plant is 50,000 tpa. Construction began in April 2002 based on licence and equipment purchased from Toyo Engineering Corporation.
- TNK is presently considering the possibility of acquisition of the state stake of the Ukrtatnafta refinery at Kremenchug. TNK has not yet determined a purchase price for the 43% stake, which was preliminarily estimated at $150 million. TNK already controls 79% of Linos at Lisichansk.
- Lukor has asked the Ukrainian leadership to intervene with the local Lvov railways as deliveries to Kalush have been suspended since 19 May. As a result of the suspension around 600 tanks containing chlorine, VCM, and propylene have accumulated that could result in an incident. Lukor is also counting the costs of unreasonable delays in delivering production, already estimated at $5.6 million, and has been forced to reduce operating rates.

CENTRAL EUROPE

Czech Republic

(Czech crown, Kc, Jul 4, $1 =27.55 €1 = 31.49)

Unipetrol
From the final results of 2002 Unipetrol made a consolidated loss of Kc 451 million against a net profit of Kc 1.096 billion in 2001. Group sales fell by more than 9% to Kc 61.3 billion last year.

Unipetrol's sales fell by 25% to Kc 60.2 billion although this figure was mitigated by the group only including 51% of Ceska rafinérská's turnover for 2002, compared to 100% in 2001. Last year's performance was affected in the main by the rising price of oil and the floods that took place in August. Ceska rafinérská showed the highest net loss in the group last year, worth Kc 736 million. In the first quarter of this year, however, Ceska rafinérská was Kc 873 million in the black.

Shareholders of Unipetrol decided to contribute last year's net profit of Kc 3.9 million to the reserve fund, a step they made also in the past two years.

Ceska rafinérská (will not begin working as a re-processing refinery until 1 August this year. Originally, the company was to work on the new principle from the beginning of 2003. However, its shareholders including Unipetrol, Shell, Conoco and Agip, have kept putting the date off, setting the latest one on 16 Jun 2003. The restructuring means that CER will not do trade any more. It will only process oil for a fee, and its shareholders will buy the raw material and sell the products.

For this objective, the shareholders have to arrange a number of agreements among themselves regarding the exchange of the refinery products some of them do not need. The complicated situation at Ceska rafinérská could have an influence on the prepared repeated privatisation of Unipetrol.

Agrofert Holding has applied for the Unipetrol privatisation, this time in a consortium with PKN Orlen. In the first quarter this year Agrofert recorded a profit of Kc 470 million on a turnover of Kc 16.5 billion.

Kaucuk
Kaucuk has launched its new ethylbenzene unit with an output of 300,000 tpa at the Chemopetrol site as from 3 June. The investment, worth Kc 1.2 billion, uses a process licensed by ABB Lummus. The old plant with a capacity of 125,000 tpa and which was about thirty years old, was bought by Kaucuk from Chemopetrol in 2001. Kaucuk has hitherto been required to buy around 45,000 tpa of ethylbenzene from external sources to support styrene and styrene derivative production at Kralupy. With the new plant the company will be fully self-sufficient, and also will have some surplus to export. Southern Poland could be an option.

Kaucuk was the most profitable unit of the Unipetrol holding last year with net profits of Kc 343 million, five times the number seen in 2001.

Spolana
Spolana will try to settle last year's loss of Kc 491.3 million from future profits. Although the company has been faced by a succession of losses over a good number of years there is a hope that it could make a moderate profit in 2004. In 2001, the company was Kc 699.7 million in the red. Spolana's revenues from sales fell from Kc 6.57 billion in 2001 to Kc 3.73 billion in 2002.

The fall in sales last year resulted from the extensive floods last August and also the explosion in that occurred in the PVC unit in June. Thus, the PVC facility was out of order for more than half a year and production in other key units was suspended for a few months.

The cost damage from floods has been estimated at around Kc 1.4 billion of which Kc 1 billion could be settled from insurance. However, this year's performance has already been affected by the requirements of resolving flood damage. In the first quarter Spolana's loss increased from Kc 56 million (in 2002) to Kc 123.7 million. Recession in construction in the EU area also has had an unfavourable effect on Spolana which exported about 85% of output last year.

Spolchemie
Spolchemie plans to start the production of low–molecular epoxy resins in a new facility at Usti nad Labem, the construction of which started in June. Spolchemie is investing in the project along with and Dainippon Ink & Chemicals (DIC) of Japan, through Reichhold. The new plant, with a capacity of 30,000 tpa, will treble the production of epoxy resins. Together with unsaturated polyester resins they contribute 45% to Spolchemie's sales.

AliaChem
AliaChem posted a pre-tax profit of Kc 87.5 million in the period from January to April this year, an increase of 84% in the same period of 2002. Revenues fell by 16% to Kc 2.12 billion. Operating profit reached Kc 115.2 million, almost identical to last year's figure.

Slovakia

(Slovak Crown, Sk, Jul 4, $1 =36.2420 €1 = 41.64)

Slovnaft
Slovnaft has awarded a €2.3 million contract to Czech company Vitkovice Strojirenstvi at Ostrava to supply the necessary reactors for the polypropylene unit in the first half of 2004. Unipol technology has been selected for the 255,000 tpa plant with Linde as the main contractors for the project.

Slovnaft plans to invest Sk 2.5 billion in a deep desulfphurising gas oil unit by the end of 2004. The project will enable Slovnaft to improve the quality of its diesel fuel and to meet strict EU norms. The construction of the new unit, which will have a capacity of 1.8 million tpa, is to be completed in October 2004.

Hungary

(Hungarian forint, Ft, Jul 4, $1 = 231.94 €1 = 265.13)

MOL
The Hungarian government has announced that it wants to sell 23% of MOL with the shares being sold abroad, in addition to the domestic market. The revenues which the government hopes to raise could amount to anything between the range of $700-900 million. The government will keep a golden share with special voting rights. PKN Orlen has already indicated that it is interested in the stake.

VCP Capital Partners AG (VCP) announced the purchase of 3 million MOL Rt shares, representing a 2.82% stake through its direct subsidiary VCP Industrie Beteiligungs AG. The transaction valued at Ft 16.9 billion took place over the past week. VCP, which is owned entirely by a private foundation called Collegia Privatstiftung, has significant stakes in BorsodChem Rt (88%) and TVK Rt (31%). VCP's shareholding in Hungarian companies now totals Ft 140 billion.

Energy
E.ON has concluded a contract with the MOL group to supply 1,036 gigawatt hours of electricity per annum for an unspecified period. E.ON will supply 11 of MOL's sites that have reached eligible status on the recently liberalised market as well as TVK Rt. In addition to the Hungarian sites, E.ON will also supply electricity to Slovnaft through E.ON's local subsidiary, ZSE. MOL will make significant savings from this deal whilst it is a major breakthrough for E.ON's Hungarian electricity trading unit. It will represent about a third of its trading revenues and open the way for further deals.

Hungary partially opened its electricity market at the start of this year and consumers can now freely chose their electricity supplier. Though the liberalised market provides cheaper electricity, savings are limited because as the rules require at least 50% of the electricity supplied to a consumer to be from domestic sources. Domestic electricity is more expensive than imports, which keeps the price of electricity fairly high.

Plastics
The State Financial Institution Supervision (PSZaF) restored the rights connected to ownership in Pannonplast Plastic Rt to Britton Kft, Kartonpack Rt and Pevdi Kft effective immediately. The PSZaF suspended the rights in a 16 June decision until the above companies declared their exact level of influence in the company. In the interim, Kartonpack sold its shares to its owner, Britton Kft.

Pannonplast has decided to emerge its two fully-owned subsidiaries Pannon-Tara and Pannon-Effekt. This is mainly due to reduction of output as well as the management personnel at Pannon-Tara. Pannon-Tara is focused on manufacturing plastic crates for transport and storage, while Pannon-Effekt specialises on cans, balloons and barrels. Both subsidiaries are based in Debrecen.

Duna Profit 2002 Rt is planning to build a new plant to produce windows at Sajóvelezd, northern Hungary. The location was chosen because of the proximity of petrochemical companies BorsodChem and TVK. The investment is worth Ft 4 billion.

Poland

(Polish zloty, zl, Jul 4, $1 = 3.89 €1 = 4.44)

PKN Orlen

PKN Orlen has confirmed that it is interested in the privatisation of MOL. Together with MOL, PKN Orlen could forge an attempt to take over the stake in Unipetrol. At the end of May PKN Orlen stated that it would set up a consortium and would take part in Unipetrol privatisation together with Agrofert. The Polish government is faced with three options regarding the privatisation of Grupa Lotos (formerly Rafineria Gdanska), and the final decision is due on 8 July. It may agree to sell to the consortium of PKN Orlen and Rotch Energy. Alternatively it could annul the tender or it could restart talks with other bidders, such as MOL or LUKoil.

Rafineria Trzebinia

On 19 June ExxonMobil Research and Engineering Company (EMRE) announced that the Polish companies Fabryka Parafn Naftowax and Rafineria Trzebinia have selected EMRE's wax hydrofining technology. This process allows the production of high quality paraffins. The paraffins will be used by company Rafineria Trzebinia.

Polish Chemical Output (unit kilo tons)

Product	*Jan-Apr 03*	*Jan-Apr 02*
LDPE	55	58
Polypropylene	49	42
PVC	81	78
Caustic Soda	133	127
Nitrogen Fert	570	533
Phosphate Fert	168	186
Synthetic Fibres	33	30

Rafineria Trzebinia is one of the southern Polish refineries for which oil processing is profitable after tax reliefs and exemptions. In the possibility that such relief will be terminated for businesses, the refineries are being forced to diversify activities. Rafineria Trzebinia believes that unless the reliefs are preserved, the plant will end oil processing by 2004. It will have to invest about zl 300 million to finish projects that will secure its functioning for the next 15 years.

These investments include creation of facilities for biocomponent and paraffin production, as well as extension of the Boronowo-Trzebinia pipeline. Trzebinia would also become the manager of 170 of Orlen's gasoline stations in the south of Poland. Until 2004, the company will concentrate solely on trading and managing its subsidiaries.

Polish chemical sector facing challenges

In 2002, Polish chemical companies, hit by unpaid debt, reported in total near to zl 400 million in losses. Their biggest creditors are banks and the gas monopolist Polish Oil and Gas Company (PGNiG). The chemical companies are trying to negotiate debt reduction agreements with banks and the treasury is now mulling an option under which PGNiG could take stakes in the chemical companies in exchange for their debt. But shares in the chemical companies could be then difficult to sell. Most of the fertiliser based companies blame the PGNiG for the financial troubles. Gas purchases account for as much as 80% of their production costs. PGNiG reported a zl 339 million net profit last year.

The total debt of chemical companies, comprising Police, Sarzyna, Zachem, Zaklady Azotowe Pulawy, Zaklady Azotowe Tarnow and Zaklady Azotowe Kedzierzyn, has now passed zl 2.2 billion. This includes zl 960 million in banking loans, zl 970 million in trade payables and zl 560 million in overdue payments. According to Nafta Polska, the sector will need around zl 880 million in 2003-2004 to retain financial liquidity.

The main reasons why the treasury has so far failed to privatise chemical companies are the diverse production structures, a wide range of products but on a relatively small scale, excessive employment and excessive social package demands by trade unions. Additionally, investors who were interested in the sector, wanted to purchase only certain parts of the plants and not whole companies.

Despite the negative overview some companies say that their situation has started to improve this year. State-owned firms, like those in Tarnow, Kedzierzyn, Pulawy, Police or Bydgoszcz, have started restructuring on their own. Zaklady Azotowe in Tarnow reported a zl 12 million pre-tax profit in the first quarter of 2003. The company had a zl 40 million net loss last year and a zl 180 million loss in 2001. It is now holding talks with its creditors on a proposed 40% debt reduction.

Zaklady Azotowe Kedzierzyn has also reported some improvement. The company earned a zl3.9mn pre-tax profit in the first quarter of this year on zl 278 million sales. In the same period of last year, the company suffered a zl 11.2 million loss on zl 207million sales. According to the company, it managed to improve its results thanks to a better business climate. It has also finished key restructuring steps without any financial assistance from the European Union, but the company is building an industrial park and hopes to use some EU funds next year.

Under the government's programme, the sector is due to be privatised within two to five years. Nafta Polska is in charge of the sell-off. Funds from the European Union could be used to finance the process. The consensus is that the chemical sector in Poland is heavily under invested. There are estimates of around zl 4 billion required by 2010 to start catching up the rest of Europe, although it is not clear how this money would be spent.

Skypet
The PET project at Wloclawek looks very uncertain, if not already dead with the main partner in the jv, SK Chemicals, facing domestic challenges. It would be seen as a setback for jvs in the region if this project collapses, but the influential factors have had nothing do to with the situation in Poland.

SK Chemicals is part of the SK Global group which is currently faced by accounting irregularities and this seems to be one of the reasons why the project has run into difficulties. If the project is scrapped it arguably opens the door for a new player to form a new jv as the fundamentals behind the project remain extremely sound.

SOUTH EAST EUROPE

Romania

Petrotel-LUKoil
Petrotel-LUKoil has selected EMRE's proprietary SCANfining gasoline sulphur reduction process for installation at Ploesti. This is along with the Exomer process for integrated mercaptan removal, jointly developed by EMRE and Merichem Chemicals & Refinery Services.

Croatian Chemical Output (unit-tons)

Product	*Q1 03*	*Q1 02*
Ammonia	58,092	78,776
Nitric Acid	56,360	76,800
Other Inorganic Acids	53,011	32,932
VCM	-	956
Carbon Black	5,280	4,838
Plant Protection Agents	1,777	1,443
Urea	44,642	49,604
Compound Fertilisers	122,504	170,798
Polyethylene	29,627	28,983
Synthetic Resins	16,097	13,567
Detergents	13,164	14,505
Other coating materials	5,461	5,724

Nominal capacity is expected to be 350,000 tpa (approximately 8,090 barrels per calendar day). The SCANfining technology, developed by EMRE (ExxonMobil Research and Engineering Company), states that the process is based on catalytic selective hydrogenation for removing sulphur compounds from gasoline. The technology uses a proprietary, selective catalyst jointly developed by EMRE and Akzo Nobel Catalysts that minimises the loss of octane-rich olefins and hydrogen consumption.

Carom
The APAPS is reported to have sold its 51% stake in Carom at Onesti to Tender Timisoara. In 2002, Carom registered losses of €16.8 million. Carom produces a range of petrochemicals including acetone, phenol, toluene, xylenes, SBR, etc. In 1991, the Onesti based company was split into its three original components. Thus, emerged Carom as it stands today, along with Rafo (the refinery part) and Chimcomplex Borzesti (the inorganic chemicals part).

Chimcomplex
Chimcomplex's 94.75% government stake has been sold to a local consortium including Contactoare Buzau,

Romferchim Bucharest, and A2 Impex Ploiesti. The contract was signed on 9 June by the State Ownership Fund (APAPS).

The total value of the transaction is €25,030,570. The company's main field of activity is the production of basic organic and inorganic chemicals. The investor's pledges include keeping maintaining activity for at least 5 years from the date of the share ownership transfer. Other commitments include keeping for at least 5 years the number of the occupied workplaces.

Serbian Chemical Output (unit-tons)

Product	*Jan-Dec 2002*	*Jan-Dec 2001*
Sulphuric Acid	73,890	68,459
Nitric Acid	132,781	80,697
Caustic Soda	6,787	7,584
Phosphate Fert	18,039	69,904
Nitrogen Fert	84,291	249,339
Polyethylene	116,613	110,249
Detergents	41,627	51,929
Coating agents	16,627	16,720

Serbian Chemical Exports (unit-tons)

Product	*Jan-Dec 2002*	*Jan-Dec 2001*
SBR	41,233	32,691
Propylene	2,724	559
Methanol	2,305	16,585
Acetic acid	4,406	10,947
Polyethylene	82,776	44,852
Polypropylene	9,771	11,626

Serbian Chemical Imports (unit-tons)

Product	*Jan-Dec 2002*	*Jan-Dec 2001*
Crude Oil	2,678,000	1,838,000
Gasoline	70	146
Diesel	207	428
Natural Gas	1014	847
Fertilisers	342	523
Polyethylene	38,317	33,872

Bulgaria

The Devnya-based chemical companies, such as Agropolychim, Solvay Sodi and Polymeri have suggested that they should be singled out as industrial zone with the preferences rendered. The proximity to the sea, and the connections to Silistra and Rousse on the Danube, the well-developed infrastructure of the Devnya area make it perfectly suitable for an industrial zone.

Devnya-based companies can export products both towards West Europe along the Danube route and world-wide, from the Black Sea ports of Varna. There is a specific interest towards greenfield investments in the area on the part of a number of foreign companies.

Serbia

British interest has been noted in the privatisation of the Serbian chemical industry with the support of the banks. As from 1 August HIP Petrohemija at Pancevo will become a shareholder owned company. This means that the state will convert shares from taxes and other claims toward Petrohemija and will become its majority owner. Petrohemija's managers are convinced that this will help to attract foreign investments. The contract for reconstruction with the German company Debis will be cancelled, whilst simultaneously proposals from ABB Lummus are expected to be approved.

US company HLP Parsons will finalise the feasibility study by August for a planned crude oil pipeline to link Black Sea port of Constanta and Adriatic port of Trieste in a bid to facilitate the transport of Caspian crude toward western Europe. Following the completion of the feasibility study, both Romania and Croatia will start trying to attract potential investors to raise funds for implementing the project. The projected pipeline is expected to link Constanta to Pancevo and Croatia's port of Omisalj with a further link to Italy's Trieste.

Hipol

The Serbian Privatisation Agency has sold a 70% stake in Hipol at Odzaci to a Belgrade consortium, made up of Select Petroleum Chemical and Prochemical, for a total of $500,000. Hipol is the sole producer of polypropylene in Serbia with a capacity of 33,000 tpa, and also has a polypropylene compounds unit of 3,200 tpa. Under the sell-off agreement the news owner will be obliged to invest $19.5 million in the company and set aside a further $18.3 million for a social welfare programme.

EURASIA, COMMONWEALTH OF INDEPENDENT STATES

Russia

(Rus rouble Jul 4, $1 = 30.373, €1= 34.720)

Russian production Q1 2003

The first quarter's results from the Russian petrochemical industry showed a welcome increase over last year with

most products seeing rises, most notably methanol. Production increases ranged from 4-6% on average across the board. The most noticeable fall in the chemical industry overall was seen in the production of plant protection agents which fell by 40.9% in the first quarter.

One of the strongest areas of growth was seen in plastics processing, rising by about 20% in the first quarter this year with good demand from polymer films and thermoplastic applications. Amongst the converters the Vladimir Chemical Plant increased processing levels by 36.3%.

Fibres and threads saw an increase in production for the first time in two years, raising levels by 19.9%. Most of the producers saw an increase. Carbon black production increased by 18.8%.

Russian Chemical Production (unit-kilo tons)

Product	*Q1 2003*	*Q1 2002*
Ammonia	2,802	2,796
Caustic Soda	274	241
Soda Ash	580	419
Methanol	706	392
Acetic Acid	42	40
Ethylene	539	505
Propylene	257	238
Benzene	271	226
Orthoxylene	51	74
Paraxylene	38	37
Styrene	110	97
Phenol	50	28
Acetone	25	28
Phthalic Anhydride	25	24
Butadiene	86	79
Isoprene	82	82
Synthetic Rubber	262	189
Polyethylene	259	231
Polypropylene	75	63
Polystyrene	28	22
PVC	136	135
Caprolactam	67	69
Aniline	14	11
Plasticizers	31	29
Carbon Black	133	112

Foreign trade Q1 2003

In the first quarter this year most products saw an increase in export volumes although PVC and caprolactam started to feel the pressure from Chinese anti-dumping policies. Methanol exports jumped dramatically due to the change in the global climate. Russian methanol exports were done in the first quarter at an average price of $139 against $68 last year, thus explaining the heightened interest in production.

SIBUR/Gazprom

In the first five months of 2003 SIBUR produced 745,000 tons of liquefied hydrocarbon gases against 340,000 tons in 2002. The first half of last year was a very difficult time for the group, but there has been a good recovery in 2003. The group produced 222,000 tons of monomers in the first five months against 96,000 tons last year), and 209,000 tons of synthetic rubber against 89,000 tons. Polymer production increased to 156,000 tons from 63,000 tons, whilst organic chemical production totalled 286,000 tons against 73,000 tons.

SIBUR's share ownership structure

Company	*% share*
Gazprom	51
SIBUR-Tyumen	15.82
Gazneftehimicheskaya	14.23
Triodekor	6.17
Uralorgsintez	1.64
Perm GPZ	1.47
Voronezhkautshuk	2.47
Yaroslavl Tyre Plant	2.46
Omsk Tyre Plant	4.8
Others	14.17
Total	100.00

In 2002, SIBUR incurred losses of 5.6 billion roubles but has predicted profits of 2.5 billion roubles this year which would mark a dramatic turnaround. Product sales for the whole group could be in the range of 56-58 billion roubles for this year, almost twice the volume achieved in 2002. The first five months produced 27.8 billion roubles in turnover with a net profit of 700 million roubles.

Having established above 75% share control in SIBUR (including 51% direct share ownership), Gazprom has so far secured only two thirds of the places on the board of directors. Gazneftehimicheskaya (GNK), which is under the guidance of ex-SIBUR president Goldovsky, also has holds three places. This is seen as more symbolic than serious influence, but it does prevent Gazprom totally swallowing SIBUR.

Gazprom is strengthening the administrative control over SIBUR's exports with the introduction of an affiliated company called Gazexport. SIBUR's annual exports are in the range of $200-300 million. SIBUR controls around 25% of the LPG market in Russia, 50% of the synthetic rubber market and 50% of tyres.

Novy Urengoy investment

Gazprom stated at the end of June that it planned to spend $560 million on completion of the Novy Urengoy

project over the next three years, covering three quarters of the cost by loans from Western banks. The company would cover the remaining costs from its own profit.

Gazprom has a number of petrochemical joint projects with its Western partners, including BASF, but these plans rarely progress due to the lack of financing. The Novy Urengoy plant was designed a decade ago to produce up to 300,000 tpa of polyethylene near Gazprom's main Arctic gas fields.

SIBUR-Neftekhim
After close examination during the period from April 1 till May 31 SIBUR-Neftekhim found a total of 55 infringements of industrial discipline. These infringements included excessive alcohol intake and theft of property. The material damage from theft was valued at 74,000 roubles. The company has tightened up on the theft of nonferrous metals, aluminium, medical supplies, and also cables and diesel fuel.

Mezhregiongaz
Gazprom and the agrochemical corporation Azot have agreed to return 40.12% of the corporation shares to Mezhregiongaz, a Gazprom affiliated company. Gazprom plans to buy out the remaining shares of Azot and obtain the full control over the company.

Nizhnekamskneftekhim

Olefin cracker
On 20 June the planned shutdown of the ethylene cracker started at Nizhnekamsk, lasting for about a month. In addition to normal maintenance, such as cleaning and testing of equipment, more than 20 units of heat-exchanging and pump equipment need to be replaced. During the shutdown a rrepair of compressors will be undertaken by the company Thomassen, whilst steps will also be taken for completing the upgrade of ethylene capacity to 600,000 tpa.

The cracker is linked by pipeline to consumers located at Kazan, Ufa, Salavat, and Sterlitamak. Replacement of pipes and repair of the ethylene pipeline is a complex and expensive operation. This year Nizhnekamskneftekhim, through horizontal drilling, will replace a part of the pipe laid on river bed of the Kuryanka located in the Alekseevsk area of Tatarstan. The last year a similar method was applied in Bashkortostan, at replacement of a site through the river Boda.

Olefin Polymer Oil Plant
Nizhnekamskneftekhim and Tatneft are progressing with the construction of the olefin polymer oil plant, based at the alpha olefin site at Nizhnekamskneftekhim. The advantage installing the plant at the alpha olefin unit is reported by the company to be the unique oligomerisation process. Due to the flexibility of the process it permits the modification of the products range depending on the market situation.

The general contractor and the subcontractors have so far accomplished an estimated 65% of capital investments allocated for plant construction. The first stage of the construction is scheduled to be completed in July this year and the second in December.

Environment
The main aim of Nizhnekamskneftekhim's environmental policy is to attain the international standard ISO 14000 and to increase measures against protecting the local region. In 2002, ecology policy was focused on six main targets, all of which were met successfully. One of the main tasks has been the usage of gaseous wastes from ethylene oxide production. The company also is heavily investigating the problems of sewage.

Nizhnekamskneftekhim has started to import inhibitors with the aim of improving the quality of water and a reduction in corrosion levels. The company is also seeking an improvement of ecological standards at the ethylene, styrene and polyether plants.

Polystyrene
The polystyrene plant at Nizhnekamskneftekhim was officially completed on 14 June. On 16 June the plant started receiving steam and ethylbenzene. The start-up and adjustment operations are being controlled by Atofina.

Since being introduced in the 1960s Nizhnekamskneftekhim has not produced polymers, but this omission is now receiving considerable attention by the company. With a strong monomer base in ethylene, propylene, styrene,

etc, it is considered by the company to be almost improper not to be involved in the production of polymers which yield higher prices and margins.

The production of polystyrene is scheduled to start on 10 July. The first deliveries of 525Å brand general purpose and 825Å brand polystyrene from Nizhnekamskneftekhim are expected at Saint Petersburg and Moscow warehouses at the end of July. Between 10 August and the end of the year the company plans to launch the production of PSS 525 brand (general purpose), UPS 825Å (for extrusion) and UPS 825D (for moulding) polystyrene. The planned price will be 500 roubles/ton lower than quoted by Polystyrol at Omsk, VAT included. This means that prices will be in the range of 35-36,000 roubles/ton.

Divinyl
Based on imported butane-butadiene fractions Nizhnekamskneftekhim has restarted divinyl production. The divinyl unit was started in 1974 and at the time was the most modern of its kind in the USSR. The capacity was 90,000 tpa based on Japanese equipment. In 1992, the unit was stopped due to a combination of insufficient raw materials and buyers not paying for deliveries. Since then there have been two efforts to restart the plant. In 1998, the company tried to produce isoprene and in 2000 they tried to produce isobutylene.

Last time the decision on start-up of manufacture was accepted an autumn of the last year. After carrying out repairs and revamps to the equipment, quality problems were solved. Currently the unit works at normal rates and produces up to 150 tons/day of divinyl.

Elastokam
Elastokam was established at Nizhnekamsk as a subsidiary of BASF in 2002 and it is now ready for the production of polyurethane systems. The new production will provide both Nizhnekamskneftekhim and Elastokam with additional sales, added value and income.

The recent tests of first sample products have showed that the quality of polyurethane produced in Nizhnekamsk does not differ from western standards. Polyether feedstock for polyurethane is provided by the plant for styrene and polyester resins. Elastokam can produce up to 28,000 tpa of polyurethane systems depending on the level of demand in the domestic and CIS markets.

Butyl rubber
The butyl rubber plant at Nizhnekamsk restarted on 9 June after its scheduled repairs. The plant is now producing 220 tons per day of quality butyl rubber, which is more than its output before the repair. Such a rate will permit to fulfill the monthly plan of June and to produce 3,900 tons of butyl rubber. In the first half year the plant produced 1,500-2,000 tons more rubber than planned.

Isoprene
For the first five months of 2003 Nizhnekamskneftekhim increased the production of isoprene by 34.8% over last year. This increase has been facilitated by the reconstruction of the unit. In May, the plant produced 15,325 tons which was 13% higher than in May 2002.

Bashkortostan

Bashneftekhim achieved profits of 560 million roubles in 2002, 75% down on 2001. The cost price of production was reduced by 88% from 1,441 million roubles down to 179 million roubles. The company achieved 429 million roubles net profit in 2002, a reduction of 29% (176 million roubles) against 2001.

Bashneftekhim increased its long-term financial investments by 14% in 2002 (260 million roubles) to a total of 2.135 million roubles. The debts of the organisation were reduced by 55% (to 455 million roubles) up to 370 million roubles. Bashneftekhim incorporates some of the main chemical plants in Bashkortostan, including Ufaorgsintez.

Ufaorgsintez
Ufaorgsintez decided to pay dividends of 0.2 rouble per ordinary share or privileged stock of 1 rouble nominal. The 2002 net profit amounted to 334,37 million roubles. The 2001 net profit was 373.39 million roubles, and the dividends paid were 0.15 rouble per one ordinary or privileged stock. The local press has reported that Ufaorgsintez has decided to pull out of an agreement formed 22 May 1998 which allowed Bashneftekhim to manage the company.

Gazprom-Salavatnefteorgsintez

After discussions with the government of Bashkortostan the latest report is that Gazprom is now considering the possible purchase of the majority stake in Salavatnefteorgsintez. The majority 53.92% stake in Salavatnefteorgsintez is owned by the Bashkortostan State Property Management Committee but is trust-managed by Gazprom and SIBUR. The trust agreement with the Bashkortostan government expired in 2002 and although strong efforts were made to take the trust back into government hands Gazprom extended the agreement eventually for another five years.

Gazprom is also interested in the trust management of other chemical plants in Bashkortostan such as Kautshuk and Kaustik at Sterlitamak. The incorporation of these companies into the SIBUR structure has been considered in the past.

In 2002, Salavatnefteorgsintez achieved 1,560 million roubles of net profit against 1,544 million roubles in 2001. Sales' revenues grew by 9% and reached 16.278 million roubles whilst production costs grew by 4% to 12.236 million roubles. Sales' profits were recorded at the level of 2.834 million roubles, 18% up on 2001.

In 2002 the company's non-current assets grew by 32% and amounted to 8.784 million roubles. At the same time the company's current assets increased by 31% up to 6.112 million roubles. The development of the ethylbenzene and styrene monomer plants represent the key project priority for the company.

New polypropylene conversion plant

In Ufa a new company Polymerimpex has been opened for processing polypropylene. Methods used include extrusion and thermoforming for packaging and household applications.

LUKoil

LUKoil-Neftekhim has started work on the construction of the sodium cyanide line at the Saratovorgsintez complex. Construction will start at the end of this year which will be an important asset for the domestic gold industry. At present, around 50-60% of sodium cyanide consumption in Russia is based on imports from countries such as China and India. The new line at Saratov will have a capacity of 120,000 tpa at a cost of $30 million. The project will also enable Saratovorgsintez to resolve environmental and economic problems. Toxic prussic acid will not be burned for a start, whilst it is expected that the new production capacity will be capable of competing with imports.

LUKoil's long-term development in the gas and chemical sectors involve investments in the range of $19 billion. Accordingly, increases in the company's reserves of natural gas by 2020 will amount to 2.9 trillion cubic metres and 150 million tons of gas condensate.

On 1 July LUKoil and Gazprom formed a jv TsentrKaspneftegas to develop oil and gas fields in the Caspian Sea. This has been cited as an eventual target area for a LUKoil petrochemical complex. LUKOIL and GAZPROM have a 50-percent stake each in the joint venture. LUKOIL specialists estimate the recoverable hydrocarbon reserves at 521 million tons of oil equivalent.

Irkutsk

Petrochemical output at Angarsk (unit-kilo tons)

Product	*Q1 2003*	*Q1 2002*
Ethylene	52.9	53.1
Propylene	22.7	21.5
Benzene	15.9	15.4
Styrene	12.7	10.8
LDPE	19.7	19.4
Methanol	6.2	5.8

In the period January-April this year the Irkutsk chemical sector produced a total of 111,696 tons of plastics and synthetic resins, which was 5% down on the same period last year. This fall was attributed to the lower PVC production at Sayansk.

Angarsk Polymer Plant

Angarsk Polymer Plant's turnover in 2002 increased by 8.1% to 1.178 billon roubles. Costs increased by 11.3%. The profits on sales in 2002 totalled 47.4 million roubles in comparison with 72.6 million roubles in 2001. Angarsk Polymer Plant is part of the YUKOS structure and plans are being reviewed for plant modernisation and expansion.

Sayanskkhimplast

Sayanskkhimplast reduced PVC production in the period January to April to 71,900 tons, by 8% down on the

same period in 2002. The fall in PVC production was caused by this year by lower deliveries of ethylene from Angarsk. Another factor that could have a more important impact is Chinese anti-dumping taxes and there are suggestions that it could even force Sayanskkhimplast to stop production. The Chinese government of China raised import customs duties by 12% from 12 May 2003. The duties will remain unchanged for the whole investigation period until 12 September 2003.

With the outlook in China uncertain Sayanskkhimplast has started to focus on the Russian market and expected to raise its supply of PVC resin to the domestic market by 3-4 times in June 2003. This is from a very low base however.

Longer term the picture is not so bleak. New Russian processing enterprises emerging in the European part of Russia, such as the Solvay joint venture at Tver, will further increase demand for PVC in the domestic market. According to Sayanskkhimplast in two years the company hopes to shake off its dependence on exports. Sayanskkhimplast is yet to reduce its production output on account of anti-dumping, although the companies inventories are high.

Leningrad region

Penoplex, which belongs to KINEKS-holding in the Leningrad region, expects to finish the construction of a new polystyrene plant at Kirishi. The capacity of the plant is 50,000 tpa. Construction began in April 2002 based on licence and equipment purchased from Toyo Engineering Corporation.

The company will able to sell product at 10-20% lower than imported products, depending on such factors as transportation, etc. About 20% of polystyrene production will be used captively and the remaining 80% sold on the market.

Penoplex started operating at Kirishi in the Leningrad region five years ago. The resin was imported, as the quality of the home product was not sufficient. Due to cost disadvantages the company decided to start construction of its own GP PS plant.

Russian Chemical Exports (unit-kilo tons)

Product	*Q1 2003*	*Q1 2002*
Ammonia	734.0	574.5
Caustic Soda	30.3	28.8
Soda Ash	118.8	122.3
Methanol	389.2	111.0
Benzene	14.0	14.7
Styrene	75.3	71.2
Phenol	11.7	7.3
Acetone	11.3	7.3
Synthetic Rubber	142.9	108.0
Polyethylene	110.4	91.9
Polypropylene	20.6	18.4
Polystyrene	2.9	3.5
PVC	68.1	78.9
Caprolactam	40.3	40.6
Dyestuffs	0.6	0.6
Detergents	27.7	15.7
Carbon Black	64.6	49.0

Russian Chemical Imports (unit-kilo tons)

Product	*Q1 2003*	*Q1 2002*
Synthetic Rubber	8.4	6.8
Polyethylene	21.7	27.7
Polypropylene	4.0	6.8
Polystyrene	29.8	25.8
PVC	6.6	7.6
Caprolactam	40.3	40.6
Dyestuffs	2.7	3.2

Product News

PVC

The respective managements of Usolyekhimprom and Khimprom at Volgograd have announced the possibility of a merger between their companies under a holding company. After the merger, the companies will be able to control more than 50% of the Russian market for calcium carbide, trichloroethylene and emulsion PVC.

Usolyekhimprom produces nearly the same range of the products as Khimprom at Volgograd. The Moscow group, Nitol controls about 50% of Usolyekhimprom's shares. The majority share holding of Khimprom at Volgograd is owned by the State, and this is the main obstacle on the way to the companies merger.

Aniline

Russia is the only CIS country where aniline is produced. Producers include Volzhsky Orgsintez, which accounts for 80% of total output), Khimprom Novocheboksarsk, Beraton Berezniki, and Aniline Dyes Factory (Kemerovo). The share of exports accounts for 13% of the total production of aniline, but this share is declining due to growing internal demand (i.e., chemical additives, dyes and medications). The market price for the product is almost immune to external factors and depends basically on the situation in feedstock markets, primarily, benzene.

PTA/PET

Polief claims to be closer to completion of the PTA project, but is still looking for investment finance. The Russian Fund of Federal Property put out a tender for investors in May for a 43% stake in Polief, but nothing materialised. What is not clear is that if an investor is not found will the project be completed? The common view of the project outside of Russia is that the engineering and technology is outdated and that it would be hard to justify participation in the project. The advantage is the project's location in the heart of the Urals and its proximity to paraxylene production at Ufa. But in terms of cost structures the new plant is not viewed as the most competitive compared to other sources.

In the meantime the SIBUR PET project at Tver is about to start operations with PTA being delivered from Spain. Zimmer was fitting replacement pumps in June, which being slightly larger than planned originally could lift SIBUR's capacity from 52,500 tpa to 63,000 tpa. Initial production is already committed to Russian users. Regarding other projects Itera continues to examine the possibility of building a PET plant although the location of Vladimir is looking questionable.

SIBUR has a long-term study in hand for a large bottle resin plant at Dzerzhinsk, but a firm project is a long way off. Europlast has a 70,000 tpa PET scheme for its site near Moscow, which would be integrated with its preform production.

Polief is also in the process of constructing PET and polyester fibre units, including textile-auxiliary substances, polymer concentrates of dyes and nonwoven polypropylene Spanbond. However, the PET and fibre projects depend on the completion of the PTA project. At present, the PET project is only 25% completed. The original equipment bought from Japan in 1991 included two 60,000 tpa polycondensation lines, one intended for staple and the other for bottle grade. The current plan is to install a 120,000 tpa SSP capability, although the technology has not yet been selected.

Caprolactam

SIBUR has agreed to invest in Azot at Kemerovo for major repairs and modernisation, with 150 million roubles allocated.

Russian Caprolactam Production
(unit-kilo tons)

Producer	*Q1 03*	*Q1 02*
Shchekinoazot	13.1	12.6
Kuibyshevazot	28.4	30.0
Azot, Kemerovo	25.4	26.0
Total	66.9	68.6

The turnover for Kuibyshevazot for the first five months of 2003 amounted to 2.5 billion roubles, 46% more than the previous year. Caprolactam production increased by 12.8% in this period. The increase took place in April and May after being slightly down at the end of the first quarter.

Fibres

A new line to produce polyamide 6 at Khimvolokhno Shchekino started on 25 May. It is the first of the four similar production facilities that are scheduled to be put on-stream in the fourth quarter if this year, and the second and fourth quarters of 2004.

Installing four lines would permit an increase in the marketable polyamide capacity of the company by more than 100 tons/day. In the third quarter a new scheme of return waste recycling will permit Khimvolokhno to eliminate the energy-intensive costs of returning caprolactam to the process through regeneration. Polyamide 6 produced by new lines will be of substantially better quality and will feature improved physical properties that are important for the manufacture of synthetic filaments and cord fabrics.

The business plan of SIBUR-Volzhsky in 2003 is aiming for above 650 million roubles in turnover. From tolling raw materials the factory expects to produce 20,600 tons of fibres and threads, which would be 17% more than in 2002. Manufacture of cord fabrics will increase by 17.5%. The overall capacity utilisation will increase up to 92.4%, with cord fabrics up rising to 98.2%.

Silvinit in the Krasnoyarsk region has restored the production of viscose fibres from May, producing 300 tons in the first consignment. The company has announced a plan for privatisation through the owners Unicorn which wants to introduce polypropylene fibre production by the end of 2003.

Plastics

Solvay has signed an agreement with a Russian industrial group to produce PVC compounds at Tver. Solvay has created a joint venture with Nikos to create a new company called Soligran.

The company will operate two plants and will be operational in the autumn, pending approval from the Russian authorities. Soligran is expected to produce over 40,000 tons of PVC compounds within the next two years. It will serve the Russian market, including the cabling and building sectors.

Solvay produces performance compounds for PVC and polyolefins from 12 locations globally. Solvay plans to carry out the modernisation of the equipment at the Tver plant to introduce modern technologies. It will increase output from 6-8,000 to 35-40,000 tpa of PVC which will be of interest to the likes of Sayanskkhimplast. Products such as window structures, pipes and other products from rigid PVC will be added.

Fertilisers
Cherepovets Ammophos started a scheduled stoppage on 23 June during which there will be a radical modernisation and the introduction of new technology for the production of sulphuric acid. Ammophos is part of FosAgro, which is a large vertically-integrated structure. The group has a full cycle of phosphate mineral fertiliser production from the extraction of phosphate raw material through to end-products (fertilisers, fodder phosphates, and phosphoric acid).

Pesticides
The Altay regional administration has proposed that the Siberia regional centre for the production of plant protection chemicals should be established at Altaykhimprom. During the period 1998-2002 Altaykhimprom set up capacities to produce such agents as fenfiz, difezan, glif, nitran and others in the amount of 8,400 tpa. $90 million roubles in soft commercial bank investment loans and 10.5 million roubles from the area budget allocated to reimburse a part of the banking interest rate have been spent for these ends. The company has built up the production capacity by 60% over the past 4 years.

Chinese Imports from Russia (unit-tons)

Product	*Jan-Apr 2003*	*Jan-Apr 2002*
HDPE	24,637	30,323
LDPE	59,439	44,190
N butanol	35,939	38,767
Isobutanol	22,822	23,052
PVC	61,065	79,662
2-EH	3,638	2,103
Polypropylene	10,215	15,612
DOP	424	-
Caprolactam	22,705	43,548

Catalysts
Sud-Chemie will start in the near future to supply the Russian market with catalysts made by Scientific Design intended for ethylene oxide production. The increased range of services and products offered by Sud-Chemie has been made possible by becoming a co-owner with SABIC of Scientific Design.

Scientific Design designed the ethylene oxide production facility for Nizhnekamskneftekhim. In the CIS, Scientific Design has also supplied catalysts for hydrofining, isomerisation, hydro dewaxing processes, and for styrene, ethylene, propylene and natural gas production. Aside the Scientific Design acquisition Sud-Chemie's share in the total catalyst sales to Russia and the CIS countries consists of over 70% for styrene, 55% for ethylene, 30% for propylene and 100% for benzene (by Houdry process). The company's share in the total sales of catalysts in Russia and the CIS countries amounted to approximately 20% in 2002.

Ukraine

(Ukr hryvnia Jul 4, $1= 5.4000, €1= 6.170)

Lukor
Lukor has asked the Ukrainian leadership to intervene with the local Lvov railways as deliveries to Kalush have been suspended since 19 May. As a result of the suspension around 600 tanks containing chlorine, VCM, and propylene have accumulated that could result in an incident. Lukor is also counting the costs of unreasonable delays in delivering production, already estimated at $5.6 million, and has been forced to reduce operating rates. One of the largest consumers of Lukor is BorsodChem which has been forced to reduce its VCM processing rates in Hungary by around 20%. Lukor has promised that the position will be resolved in the near term.

The Lvov railways suspended shipment of production of Lukor due officially to questions of safety. However, Lukor argues that the Lvov railway is trying to pass over responsibility for the debts of Oriana. The Lvov railway network has a monopolist position for the delivery of cargoes of Lukor. Already deliveries of caustic soda to the Nikolaev Aluminium Factory have been stopped and the enterprise can not carry out its obligations under export contracts.

LUKoil-Neftekhim is planning the construction of a new caustic soda unit of 200,000 tpa at the Kalush site to replace the old unit of 210,000 tpa which was constructed for the original Chlorvinyl complex. In 2002, Lukor produced around 70,000 tons of caustic at Kalush. The costs of the new plant are estimated at around $50

million. The modernisation of the caustic/chlorine facilities is part of the VCM developments required for PVC production. The new plant will see the exchange of the diaphragm method for the membrane method.

Evikhem

The Turkish company Debant group and Evikhem of Kharkov have created a jv Debant-Ukraine for the production of containers from polypropylene fibres. Financing of the jv will be made by the Turkish side which will install the equipment, raw material, and will supply the know-how. The total project investment amounts to $0.8 million.

The containers are intended for packing, transportation, storage of cargoes from 50 up to 2000 kg. It can be as foodstuffs (salt, sugar), and cement, road metal, fertilizers, ferroalloys, chemical production (carbon black, etc.). Evikhem is also involved in plastics processing through a jv with Azot at Severodonetsk.

Ukrainian refineries

TNK is presently considering the possibility of acquisition of the state stake of the Ukrtatnafta refinery at Kremenchug. TNK has not yet determined a purchase price for the 43% stake, which was preliminarily estimated at $150 million. TNK already controls 79% of Linos at Lisichansk.

From 30 April the Linos refinery has been down for maintenance which should have bee finished by the end of May. However, additional work was needed on the cat cracking and polypropylene units. These units are scheduled to restart in July.

Ukrainian Chemical Output (unit-kilo tons)

Product	*May 03*	*May 02*	*Jan-May 2003*	*Jan-May 2002*
Nitrogen Fertiliser	221	193.5	1069.6	980
Phosphate Fertiliser	2.8	0,0	9.2	5
Potassium Fertiliser	0.4	0.02	4.2	1
Ammonia	405	377	2077	1839
Soda ash	66.0	47.4	271	268
Caustic soda	6.12	12.12	52.8	51.6
Sulphuric acid	94.1	59.8	319	337
Polyethylene	-	8.56	29.9	36.2
PVC	-	0.31	1.69	1.96
Polystyrene	1.73	0	8.04	1.38
Caprolactam	3.71	1.25	17.04	7
Methanol	14.0	11.7	67.6	99.5

LUKoil-Odessa Oil Refinery will direct $17.4 million for the reconstruction and modernisation of its production facilities, bringing its investments up to $39 million in the 2002-2004 period. The major portion of the amount will be invested in the construction at catalytic reforming unit at the isomerisation complex with a capacity of 120,000 tpa. This would allow the company to significantly increase the share of high-octane gasoline in its output.

RivneAzot

In middle of May, the Ukrainian State Property Fund began preparations again for the sale of state shares in RivneAzot. Currently, 53.86% of the shares in RivneAzot is owned as state property having been transferred from the Rivne administration. 14.5% is owned by Pulkhim of Rivne, 12.24% is owned by Bank of Finance and Credit, Cheminvest of Liechtenstein, and 15.3% by the US company IBE Trade Corp.

RivneAzot was forced to temporarily stop all production following a government inspection after the accident that occurred on 16 May at the ammonia unit. Owing to the links between the ammonia unit and the other units RivneAzot was forced to stop production completely until 17 June.

For 2002 overall, RivneAzot made a loss of 82 million hrvynia. The company exported production valued at $30.8 million, although prices were nearly always below cost and to company's own shareholders. Privatisation may help to rid the company of these disadvantageous arrangements.

Styrol

This year Styrol plans to achieve 100 million hryvnia ($18.75 million) in net profits, thereby increasing its financial results from 2003 five-fold. The company's net revenues are expected to grow by 20% to 1.4 billion hryvnia ($262.5 million). Exports are projected to increase from $150 million in 2002 up to $200 million in 2003. The company's profit reached 75 million hryvnia ($14.06 million) in the period January-May of 2003.

Styrol has started the production of liquid carbon dioxide. The first line, with a daily capacity of 42 tons of carbonic acid, was put into operation in June while two other lines are to be launched by the end of summer which will increase the capacity to 100 tons per day. The company is continuing the reconstruction of the urea unit at Gorlovka, which would allow an increase of its production capacity from 1,350 ton/day to 1,500 tons/day. There are also plans to upgrade one of ammonia producing plants, and to expand polystyrene and pharmaceutical

production.

Central Asia

The Kungrad soda plant in Uzbekistan under construction has been furnished with water and gas pipelines, whilst facilities for rail cisterns are ready for usage. Construction of the main sections for soda ash and sodium bicarbonate production have not yet started. Project capacity of the plant will be 100,000 tpa of soda ash at a cost of $75 million.

In the Kashkadarya province of Uzbekistan the final stage of construction of the major gas compressor station at Shurtan is close to completion. The capacity of the station is about 13.5 billion m^3 of gas per year.

The government of Turkmenistan plans to carry out a radical reconstruction of the Seidi refinery at a total cost about $1.5 billion. The Seidi plant was constructed initially in the Soviet era designed to process Siberian crude. The aim of the modernisation programme is to create a complex for producing high quality gasoline, lubricant oils, polypropylene and polyethylene. At some stage in the future the refinery will be privatised.

An important part of the raw material base at Seidi has already been included the introduction of a new high-voltage power line which will reduce the dependency on Uzbek gas. The 75 km line, between Darganata-Demirgazyk and Northern Balguyi, will greatly assist the position in north-east Turkmenistan where there is a high demand for gas. Before the new power line was put into operation the area depended on Uzbek gas, at relatively high prices.

The feedstock position is also very well-supplied in the north of Turkmenistan. If the polyethylene project materialises the output will be directed towards the local market in Turkmenistan and the neighbouring Central Asian states. The polyethylene project would probably be financed by Japanese credits and would be based on natural and associated gas from the Gazachak deposit (remaining reserves of 24.5 billion cubic metres).

The project outline consists of the consortium building a unit within a period of three years to isolate ethane and produce ethylene and polyethylene, and also launch the entire infrastructure for the complex. The unit will process 3.5 billion cubic metres of gas per annum. The plant will produce linear polyethylene, mid- and high-density film, cable and pipe grade polyethylene and polyethylene ribbon. The Japanese companies will be responsible for sales of the products produced. The project could be expected to pay for itself in a period of 4-5 years.

Kazakhstan

(Kazakh Tenge, Jul 4, $1 = 147.47, €1 = 168.57)

The government backed programme for the development of the Kazakh petrochemical industry in the period 2004-2010 will be submitted for approval in the third quarter 2003 by the Ministry of Power and Mineral Resources (MEMR). The first stage of the programme is 2004-2005. The programme stipulates several investment projects based on domestic raw materials, including the polypropylene plant at Atyrau and the Aktau Plastics Plant.

A first trial of plastic pipes has been produced in west Kazakhstan to serve the local oil company Mangistaumunaigaz. The majority of the pipes have a diameter of 114 mm. The capacity of the plant is 250 km of pipes per annum.

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