

EAST Europe & C.I.S CHEMICALS BRIEFING

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CENTRAL EUROPE

Olefins

Naphtha prices have consolidated in the range of \$150-160 per ton, substantially higher than in the first quarter. Higher feedstock costs are putting pressure on olefin prices. European propylene supply has been tightening over the past month which if continues could create supply side pressures for buyers in Central Europe. During June very little spot propylene was available, with several producers in West Europe unable to meet full commitments. Of the Central European suppliers only MOL at Szazhalombatta has surplus propylene for sale.

The emergence of Polski Koncern Naftowy S.A. (PKN) in May, with the merger of Petrochemia Plock SA and CPN, has brought to an end a rather elongated and complex process of privatisation. Now the important step of creating a sole company has been achieved it will mean that the planning for expansion of the petrochemical facilities can be accelerated. One of the central goals of the plans include the introduction the new ethylene capacity at Plock. However, even with 600,000 tpa of capacity, as planned by 2002-2003, there are question marks whether this size plant can achieve the economies of scale seen in modern plants in other parts of the world.

For consumption, the demand for ethylene in Poland is expected to grow strongly in the next few years in line with the growth in plastics' applications. Domestically produced plastics are broadly estimated to meet around only half of the country's total consumption. In addition, the per capita consumption of plastics in Poland is much lower than in neighbouring countries Hungary and the Czech Republic.

The main outlets for the new ethylene capacity at Plock will include HDPE and LLDPE, for which new plants of 300,000 tpa and 200,000 tpa respectively are planned. The increase in PVC capacity also needs to be covered by additional ethylene supply. At the end of January this year a contract was signed between Anwil SA and Raytheon Engineers & Constructors B.V. for VCM plant modernisation and expansion at Wloclawek. The project involves an increase of the VCM capacity from 200,000 tpa to 300,000 tpa, in addition to improving technical and economic performance of the plant. Completion of the project is scheduled in the year 2001. Detailed engineering, construction works, supply of steel structure, piping, bulk materials (instrumentation and electrical), in addition to construction management, will be performed by the Polish company Prosynchem.

The PVC plant at Wloclawek will follow the VCM expansion to 300,000 tpa, with the changes in process technology. Additional equipment in other sections of the plant will be necessary. A contract has already been signed with NIRO A.S. Denmark for supply of complete drying line of 10 tons per hour capacity. All other modifications will be undertaken by engineers and companies of Anwil Group.

The refinery modernisation at Plock is scheduled for completion in 2000, increasing the processing capacity 40% to 16 million tpa and making it by far the largest refinery in the CEFTA region. PKN's main operation goal is to orient the production activities towards the market, and to improve the overall

efficiency of plant operations. The procedure for a stock market listing in Warsaw and London will take place later this year.

The future of the Gdansk refinery remains unresolved which has led Nafta Polska to announce plans to restructure the privatisation plan. After several failed bids Nafta Polska stated that it is unlikely to select a strategic investor to participate in the privatisation. A preliminary plan for the sale of Gdansk refinery shares will be worked out by Nafta by the end of June. The Polish government is seeking that the Gdansk oil refinery should be privatised to remain competitive with Polski Koncern Naftowy SA.

In Hungary, TVK's cracker was closed in late April for the upgrade to 350,000 tpa from 290,000 tpa. The project for the revamp is estimated to have cost in the range of Ft 10 billion. The restart following the expansion and maintenance was delayed by about two weeks due to technical difficulties. The additional ethylene will be important for TVK's captive requirements, and will help to reduce costs. Extra cracker capacity will also be important for providing propylene for the new polypropylene unit under construction at Tiszaujvaros, and for supplying ethylene to BorsodChem.

Regarding prospects for 1999 TVK expects to retain a tax break for earnings due to an increase in sales' revenues following investments. TVK received the tax break initially in 1997, and although there was some doubt that it would be retained for 1998 results look good enough to pass the threshold. Audited profits for 1998 amounted to Ft 13.2 billion compared to Ft 11.84 billion in 1997. As the stock market did not expect TVK to retain the tax break, should it be approved by the authorities the share price could bounce upwards from its current weak standing.

In the Czech Republic, there have been rumours circulating that LUKoil may be making advances on Unipetrol with a possible purchase of a 11% minority stake through a brokerage. LUKoil is known to have designs on the Paramo refinery but there are doubts in the market whether it would have the funds to make a serious bid for Unipetrol.

Propylene derivatives

Several Czech ministers are proposing to allocate substantial funds to Chemicke zavody Sokolov a.s. (CHZS), amongst other companies in the Czech Republic where there is a degree of concern over economic survival. The ministers have claimed that foreign investors will lose interest in such companies unless they receive cash injections within the near future. The Czech Deputy Prime Minister supports the move, claiming that it would be similar to the debt cleaning of car maker Skoda Auto before its sale.

Central Europe-currencies June 21st 1999

Country	Currency	\$1=	EURO =
Czech Republic	Koruna	35.5270	36.8996
Hungary	Forint	240.715	249.579
Poland	Zloty	3.9135	4.0644
Slovakia	Koruna	43.7530	45.4501

The less than positive climate that has overshadowed the Czech chemical industry in recent months has served to complicate the future of CHZS. Moreover, the recession engulfing the Czech economy has undermined business confidence. According to Czech economic statistics, output has been down in the Czech chemical industry in the first five months this year against the same period in 1998. This is broadly interpreted as due to the downturn in domestic demand.

CHZS's position has been the subject of speculation and extended talks. At one stage in 1997 it looked as if CHZS would either be absorbed by Unipetrol or Chemapol, but it did not prove possible to reach terms with the National Property Fund (NPF). A major stumbling block to negotiations is the amount of debt owed by CHZS. Last year, the NPF was seeking a buyer for CHZS in exchange for taking over guarantees for a Kc 900 million loan. This loan was granted by the Konsolidacni banka to CHZS for the completion of the acrylic acid unit which was installed several years ago.

In the past three years CHZS has posted losses of Kc 555 million due to a number factors, including the outstanding debts accrued for part of the acrylic acid/acrylates' complex. Interest in CHSZ from a North American acrylic acid producer has been noted. The advantages of the company is in its modern technology and that there are no other producers of acrylates in the CEFTA region. The main drawback is the proximity to BSL in eastern Germany, which is also aiming to bring on stream an acrylates complex. These production facilities are expected to have better economies of scale than Sokolov.

Plasticizers

Central Europe has been following the higher price movements for DOP/phthalates, influenced in part by the rise in orthoxylene and phthalic anhydride prices. The protracted sale of the Czech phthalate producer Deza a.s. at Valasske Mezirici may have been concluded on paper, but the future remains far from certain. Current performance of the company has been badly affected by the low margins and the lack of demand for plasticizers in the past year,

although there have been recent signs of increasing prices for DOP. Demand for commodity phthalates has been improving in West Europe, moreover, even if domestic sales are being restricted by recessionary trends.

Recently, Agrofert's Kc 528 million bid for Deza was accepted by the investment funds of Komerční Banka and Ceska Sporitelna, and Investicni Kapitalova Spolecnost and Sporitelni Investicni. This meant turning down offers by the private equity funds of Prudential and Croesus. Agrofert Holding currently controls chemical and fertiliser producers with a total turnover of around Kc 20 billion, which together produced an estimated profit of Kc 600-650 million in 1998. It was believed originally that Agrofert would be buying 59.6% of Deza, but it has since been made clear that Agrofert was only purchasing a 49.95% stake, leaving the remaining 10% to a foreign financial investor. By doing so, Agrofert hopes to avoid a minority shareholder buyout.

Deza has a diversified project range, including the processing of coal tar for benzene, toluene and xylene production, the production of anthraquinone, anthracene, carbazole, acenaphthene, naphthalene, phthalic anhydride, phthalate plasticizers, phenol, cresols, xylenols, etc.

The share price for Deza rose in early June on expectations that Agrofert would complete its buyout. However, there has been disconcert in some circles over the way the transaction has been handled and the Czech Securities Commission could be requested to investigate the procedure. Agrofert has stated that the long delay in Deza's sale was beneficial in relation to the price paid. In August 1998 Agrofert was prepared to buy a commanding stake at Kc 1,950 per share (compared to Kc 805 in mid-June), but at the last minute cancelled this bid and forfeited a Kc 15 million participation fee.

A pressing concern is that Agrofert has been financing its new acquisition via debt (Citibank and Komerční Banka are among its financiers) and that it would drain Deza's profits to service these debts. The practice has been common among domestic investors which have privatised large industrial Czech companies in the past. However, Agrofert has insisted that it is more interested in helping put Deza return to the good position of a couple of years ago.

Irrespective, Agrofert is facing a challenge. After years of good profits in the mid 1990s, Deza in the past two years has suffered from a downward trend in the global chemical sector, plus a fair degree of management inertia. Last year Deza made a profit of Kc 29 million on revenues of Kc 3.2 billion, but Agrofert states that so far in 1999 Deza has already accumulated up to Kc 80 million in losses. Costs will need to be cut and Agrofert intends to re-evaluate Deza's contracts with its suppliers of raw materials. There are also intentions to sell Deza's energy source, or alternatively to team up with a potential strategic investor to create a joint venture. Possible partners include Eastern Electricity (UK), which is already a minority investor in local energy distributor Severomoravska Energetika. Agrofert is hoping to stabilise Deza's relationship with the US company Cabot in the carbon black joint venture at Valasske Mezirici.

Aromatic derivatives Agrofert has been involved in negotiations with BorsodChem over a potential capital entry into Moravske chemicke zavody a.s. (MCHZ) at Ostrava, which is a subsidiary of the chemical holding AliaChem. BorsodChem's interest in MCHZ is primarily the aniline plant, which provides most of the raw material for MDI production at Kazincbarcika.

A substantial share of Spolana's caprolactam output this year has been exported to Taiwan. In the first quarter, 6,950 tons of caprolactam were shipped from the Czech Republic to Taiwan against a zero balance for the same period last year.

Synthetic resins Spolchemie, at Usti nad Labem in the north of the Czech Republic, is embarking on a new strategy aimed at improving competitiveness in selected sectors. In particular, Spolchemie intends to focus on consolidating itself as an important European producer of resins, inorganic products and organic dyes. Although the company had previously rendered expansion plans through acquisitions, it now is seeking to sell certain subsidiaries in an effort to focus on a narrower range of products. Spolchemie is keen to sell subsidiaries which are not considered part of the core product areas.

At the end of May, following a meeting of the company's board of directors, unofficial reports surfaced that the company would stop production and reduce the workforce by about 50%. These reports were later denied by Ceska financni, which owns 49.86% of Spolchemie and is the company's main shareholder. Another significant shareholder is the National Property Fund (FNM), which holds 12%. A certain reduction in the workforce in connection with a more rational use of the work force is expected, but the company management has not yet set any specific targets. However, it is expected

that more administrative employees might be made redundant rather than workers from the plant. The company's current "Cost Reduction" project was worked out by a Western consultancy company.

Plastics Isolyth Rt, located at Tapolca in central Hungary, has recently opened a new polystyrene processing plant. Isolyth Rt is owned by a Spanish company Catalan Poliglas SA. Construction work on the new plant started in the autumn of 1998. The capacity of the new plant is 10,000 tpa. Half of the production is expected to be channelled into exports.

The Hungarian injection moulding company Albuplast Muanyag-Feldolgozo Rt posted revenues of Ft 1.3 billion for 1998, representing a record increase of 50% year-on-year. However, turnover is expected to be lower in 1999. The company has changed its owner structure, as its main owner, a Liechtenstein based off-shore company sold the 75% stake it held to a Cypriot company, Marlenco Ltd. The remaining 25% stake is held by the company and will be sold off in 2000.

Albuplast intends to strengthen the growth by product development and market research. Albuplast processes thermoplastics using injection moulding technology. The main scope of activity is the production and sale of plastic crates, cases and trays, which are used in the food-industry, agriculture and fruit-vegetable trade. The company processed 4,000 tons of raw materials in 1998, of which only 10% of its production was exported.

In southern Poland, Zaklady Chemiczne Blachownia has extended its activities to include polymer production and conversion. Chemical facilities at the Blachownia site consist of ethylbenzene and LDPE. The company is currently seeking foreign investors to support project developments in polymer processing.

SOUTH EAST EUROPE

Oil refining/petrochemicals Bidding closed on June 7 for a 58% stake in Neftochim at Bourgas. There was last minute activity amongst foreign investors, some of which signified late bids and some of which signified a withdrawal of interest. Information will be released shortly explaining which of the bidders are likely to be successful in moving forward to an advanced stage of negotiation. There are a number of projects at Bourgas which may be revived once the ownership position has been clarified. Nova Chemicals, for example, had a few years ago conducted an extensive detailed engineering study for a new LDPE plant. This cost about \$10 million which was paid by Neftochim in full but has not been taken further into the project stage largely because of the ensuing privatisation.

South East Europe-currencies June 21st 1999

Country	Currency	\$1=	EURO =
Bulgaria	Lev	1,870.85	1,946.19
Croatia	Kunar	7.3259	7.6283
Macedonia	Dinar	58.4367	60.6503
Romania	Lei	15,810	16419.5
Slovenia	Tolar	188.400	197.704
Yugoslavia	New Dinar	10.6271	11.3440

On June 8, a day before the signature of the Kosovo peace plan, the Pancevo refinery was bombed again. Although substantial material damage was caused no victims were involved. The scale of damage to the refinery and petrochemical complex is extensive, as a result of the bombing campaign. The prospect of obtaining foreign loans for supporting reconstruction seems

to be ruled out whilst Milosevic remains in power. Russia has been compelled to reduce its gas deliveries to Serbia as many consuming plants have been destroyed. MSK's methanol and acetic acid facilities at Kikinda have been down but the company hopes to be back up running by the end of July.

After drafting a list of largest privatised companies the Romanian government has announced the companies whose privatisation is close to completion in the near future. These include Carbochim at Cluj, Vega at Ploiesti; Chimpex at Constanta, Fibrex at Savinesti, and Chimcomplex at Borzesti. BorsodChem in Hungary is reported to be at a stage of advanced negotiations over Chimcomplex.

In Romania, RAFO at Onesti stated in June that it had decided upon a partial closure, which involves cuts of 469 jobs from a total of 3,119. The move is part of a broader plan to reduce costs and prepare the refinery for privatisation. RAFO expected the country's main privatisation agency, the State Ownership Fund (SOF), to re-launch efforts to sell the refinery to an investor capable of operating it properly. If there is no bid for RAFO on this occasion, the other option is to merge it with SNP Petrom (the national oil company), which itself is facing privatisation.

RAFO has the capacity to process an annual 3.5 million tpa of crude and is able to cover fuel demand in Romania's eastern regions. The refinery reported losses of 110 billion lei in the first quarter of this year, with total debts amounting to around two trillion lei. The company specialises in supplying raw

materials for the petrochemical industry. RAFO's main products consist of gas oil, butanes, and LPG, and propylene is also produced as a by-product. LUKoil is a main supplier of crude to RAFO.

Other privatisation efforts in the Romanian refinery sector have proved relatively successful in the past year. LUKoil's take-over of the Petrotel refinery at Teleajen in 1998 marked an important turning point for refining in Romania, raising the spectre that the country could become an important focal point for the processing of Caspian crude via the Russian port of Novorossiysk. LUKoil has earmarked \$200 million for investment at Petrotel over a four year period, including a revival of petrochemical activities.

The Petromidia refinery at Constanta is also seen as a potential location for processing Caspian crude. Petromidia was founded originally in 1977 on the basis of high sulphur Iranian crude, but has since been modernised enabling it to work with higher grades of product. In January this year, the Turkish company Akmaya Sanayi ve Ticaret bought 65% in Petromidia in a \$725 million deal, which was at the time the largest completed by Romania's main privatisation agency. The chairman of the State Ownership Fund stated that the deal included payment for the stake worth \$239 million, a five year investment plan of \$226 million and the equivalent of \$260 million in the local lei currency for paying off the refinery's debts. Akmaya will also put an additional \$10 million into environment protection. Akmaya has said that its investment in Petromidia includes upgrading and increasing capacity over the next two years, to 4.5 million tpa from the present 3.5 million tpa.

Croatian Chemical Output 1999		
	(unit-tons)	
<i>Product</i>	<i>Jan-Apr 99</i>	<i>Jan-Apr 98</i>
Ammonia	141,418	148,617
Nitric Acid	108,475	123,600
Other Inorganic Acids	89,792	92,410
VCM	5,789	16,315
Carbon Black	5,696	8,626
Plant Protection Agents	2,764	2,462
Urea	117,786	124,157
Compound Fertilisers	204,091	267,112
Polyethylene	54,757	50,142
Synthetic Resins	30,795	50,370
Detergents	12,930	14,381
Printing Inks	222	345
Other coating materials	6,485	7,929
Films	63	76

Output in the Croatian chemical industry was down in the first four months of 1999, with the effects of the Yugoslav crisis taking impact on market sales. As for investment the Croatian government is caught between the need to find foreign partners for developing the petrochemical industry, and the desire to retain control over domestic enterprises. Croatia's petrochemical industry can be described as possessing an incomplete production chain with an imbalance between feedstocks and intermediates in several product areas. For example, there is a shortage of ethylene capacity which means that ethylene has to be imported into INA's Zagreb plant to supplement locally produced ethylene, based on ethane feedstock. Styrene

is also required to be imported, via Zadar, for the production of polystyrene.

Aromatic derivatives

At Rimnicu Valcea, Oltchim is planning to construct a 15,000 tpa phthalic anhydride unit to replace the existing unit with the same capacity. Phthalic anhydride complements the OXO alcohol production facilities at Rimnicu Valcea, making Oltchim an important supplier of raw materials to the producers of plasticizers. The new unit will be constructed by Balcke Durr of Germany, utilising technology licensed by Nippon Steel Chemicals. Orthoxylene will be used as the feedstock. The aim is to complete the project in 2000, but this will be dependent on finance being provided for the project.

In Bosnia-Herzegovina, the Lukavac maleic anhydride plant is not operating, but is looking for financial backing to restart. The plant runs from benzene and has a capacity of 10,000 tpa. Market possibilities in Serbia have been quashed for the time being so the aim of the plant's management is to direct product sales towards West Europe. However, maleic anhydride is in structural surplus in Europe, with the start-up of new plant taking place in Germany in June.

Fertilisers

At Stara Zagora in Bulgaria Agrobiochim had hoped to restart production operations at the beginning of July. However, this now seems unlikely and there is uncertainty when the plant will restart. The plant was shut down in May due principally to the lack of ammonia. Agrobiochim is believed to owe outstanding sums to Bulgargaz for gas deliveries. On the demand side the low prices for fertilisers on the international market and a reduction in domestic demand have undermined the company's sales. This suspension of production activity is the first since the plant started operations in 1963.

Agrobiochim has been unable thus far to attract investors through the Bulgarian Privatisation Agency, but the lack of success in offering the company as a single entity has culminated in separate units being put on offer. The caprolactam unit has attracted the greatest interest with the Spanish company

Paliseda which has been expected to be appointed the new owners. Agrobiochim's other production facilities include ammonium nitrate, ammonium sulphate, and polymethylmethacrylate. The company purchases phenol from Neftochim, caustic soda from Polymeri at Devnya and phosphoric acid from Agropolichim. At the moment these purchase requirements have stopped with production activities down.

BALTIC STATES

In Lithuania, US company Cargill is assessing the viability of taking a 15% stake in the fertiliser producer Lifosa. Cargill already co-operates with Lifosa for product sales from the plant to the US market.

The Latvian government is planning to build an oil refinery at Ventspils, the implementation of which will require around \$230 million in investment. The pilot project for the construction of the plant has already been developed, according to the Latvian government, and technical and economic factors for the project have been outlined. Currently, work is under way on developing a site for the location of the oil refinery. At present, the only refinery in Lithuania is the located at Mazeikiai.

Baltic States-currencies June 21st 1999			
Country	Currency	\$1=	EURO =
Estonia	Kroon	15.0630	15.6427
Latvia	Lats	0.5984	0.8215
Lithuania	Litas	3.9995	4.1537

Mazeikiu Nafta processed 2.124 million tons of crude in the period January-May 1999, against 2.776 million tons in 1998.

Mazeikiu Nafta has been in talks with Russian exporters on the supply of crude oil for the third quarter. Mazeikiu Nafta wants around 600,000 tons per month delivered during the quarter. About 1.5 million tons was processed in the second quarter. Chase Manhattan has pledged to arrange \$650 million in loans for Mazeikiu Nafta over two years. However, Chase Manhattan will not start work until the Lithuanian government signs contracts with Williams International on investment in Mazeikiu Nafta.

These contracts seem to be facing further delays and may not be completed before mid-August. The delay in signing the contracts between the government and Williams has led to Mazeikiu Nafta informing the government that the construction work at the Butinge oil terminal, and the renovation work at the Mazeikiai refinery, will come to a halt without additional financing. Regardless of the date of the signing it is now clear that the construction of the Butinge terminal will not be completed by the end of August as planned.

COMMONWEALTH OF INDEPENDENT STATES

Russia

Output in the Russian chemical industry continues to consolidate in many product areas, although there is more concern about the direction of the rouble. The consensus from the economists is that the rouble may end the year at 40 to the dollar, or higher. The argument propounds that as long as the devaluation rate exceeds the inflation rate then exporters will continue to benefit and remain competitive. In the export market trends, China continues to show increased significance for Russian producers, particularly for butanols, caprolactam and polyethylene. To further enhance co-operation between the two countries Russia could spend up to \$300 million this year in providing technical assistance on projects in China, including chemical plants.

Oil refining In June the government of Bashkortostan and the oil transportation company Transneft signed a contract on oil deliveries to the republic's refineries. Transneft will deliver crude oil to Bashkortostan to be processed at the Ufa and Salavat refineries, where capacity utilisation rates are less than 50%. The contract is considered to be a positive development for the republic. It is not the first contract of this kind signed by Bashkortostan. Gazprom signed a similar contract with the republic two years ago, under which it got the right to purchase securities and shares of republican enterprises and to take them on lease. This includes taking a stake in Salavatnefteorgsintez.

The Tyumen Oil Company has secured a ten year loan of \$197.6 million from the US Export-Import Bank to modernise the Ryazan oil refinery. This is symbolic insofar it is the first refinery project to be supported by foreign finance since last year's government default. The Ryazan complex contains a large aromatics' unit, with capacities of 155,000 tpa of toluene and 125,000 tpa of benzene. The main aim of the project, to be undertaken over three years, is to increase the role of the refinery in the

Russian gasoline market. TNK will use \$159.4 million for purchasing US produced equipment and \$23 million for buying machinery from Russian suppliers.

Despite the Russian government's pledges to OPEC that it intends to stand by its commitments to cut its crude oil exports, this is much harder to exercise in practice. In reality, the Russian Ministry for Fuel and Energy has no real means of limiting exports as Russian oil companies are mostly private. Thus, pledges to OPEC should not be taken too seriously. The Russian government is keen to reduce the amount of exports and increase the level of domestic refining.

Primary oil refining in Russia in the period January-April this year was 53.187 million tons against 52.965 million tons in 1998. Despite the increase this year volumes still fell short of the pre-year target of 57.2 million tons. Of the integrated companies YUKOS processed 8.068 million tons, Surgutneftegaz 6.089 million tons, LUKoil 5.631 million tons, Bashneftekhim 4.4286 million tons, SIDANKO 4.187 million tons, and Sibneft 4.175 million tons. Sibneft's sole refinery is Omsk which in 1998 carried 13.1 million tons of crude throughput, representing a 19% decline from 1997, though export of refined products rose by 8%.

Russia earned \$2.924 million from crude exports in the period January-April 1999, 14.6% down on the same period last year. Russia exported 41.66 million tons in the first four months this year, 1.7 million tons more than in 1998. Cutting exports and increasing domestic refinery runs would help rein in sharp recent gasoline price rises on the local market. With this in mind, the Russian government may agree a tariff policy among the most important Russian oil companies. The major players have already indicated their willingness to take part in working out a mechanism which will allow us to avoid sharp gasoline price rises.

Petrochemicals Regarding the Gazprom-SIBUR alliance, mentioned in last month's report, Gazprom has arranged to deliver deliveries of associated gas to SIBUR mainly from Gazprom's giant Urengoy gas field, and from Russian oil companies Surgutneftegas SNGS.RTS, LUKoil LKOH.RTS and Rosneft. SIBUR hopes to process 1.5 billion cubic metres of associated gas this year at its nine processing plants, which produce propane and butane, and a further 1.5 billion cubic metres at Tobolsk of high grade petrochemical products.

The Volga Petrochemical Company (VNKhK, Nizhniy Novgorod), which was established last year with the aim of co-ordinating the local chemical industry, has begun delivering raw materials to various petrochemical plants in the Dzerzhinsk region. The company signed processing agreements with Norsi Oil and also with three chemical plants: AO Kaprolaktam, Zarya and Orgsteklo. Volga Petrochemical Company will acquire raw materials under guarantees from the regional government for processing at the plants. The plants will be paid with part of the resulting product, and Volga Petrochemical Company will sell the remaining product. Implementation of the agreement is aimed at stabilising production processes at the relevant plants, in addition to reducing production costs by increasing volume and sales. The Volga Petrochemical Company also hopes by August or September to increase crude flows to Norsi Oil, facilitating higher volumes of naphtha for ethylene production at ZAO Neftekhim.

The Volga Petrochemical was established in November 1998 by Norsi-Oil, Vneshtorgbank, AO Nizhnovenergo and the regional government, with the aim of increasing efficiency. Volga Petrochemical Company's charter capital is 84,000 roubles, split into 8,400 common shares with a par value of 10 roubles. It is planned to increase the charter capital in the near future through a re-evaluation of fixed assets. Norsi Oil owns 51% of Volga Petrochemical Company, with 25% being held by Volgo-Oksky Vneshtorgbank, 18% by Nizhnov energo energy company, and 3% each being held by the Nizhniy Novgorod and Dzerzhinsk administrations.

Volga Petrochemical Company Members	
Company	Main Products
Kaprolaktam	Ethylene oxide, caustic soda,
Korund	Calcium carbide, mineral fertilisers, household chemicals
Neftekhim	Ethylene, propylene, benzene
Orgsteklo	Polymethylmethacrylate, polyacrylonitriles, phenol, acetone
Zarya	Polycarbonates, synthetic resins, polymer films

At the end of May an auction was held for buying company debts of Nizhnekamskneftekhim, amounting to over 27 million roubles. The auction has been rescheduled and the price offered for the company's debts, broken up into 15 lots, will be lowered by 10%. The state owns 35.4% of Nizhnekamskneftekhim; AO Tataro-American Investment and Finance (TAIF) 10%, AO Tatinvest-holding 3%, Zolotoi Kolos (Kazan) 3%, Nizhnekamskneftekhim & Co. 11.3%, and private individuals 35%. The company's payables on January 1 totalled \$162 million, and receivables \$65.2 million. Also

in Tatarstan, Kazanorgsintez held an AGM on June 18, approving dividends for 1998. The company's pre-tax profit in 1998 amounted to 326 million roubles, compared to 113 million roubles in 1997.

Rosavto is looking for suppliers of propylene on a long term basis, preferably of product produced at Nizhnekamsk. The volume of monthly requirements is up to 1,000 tons. Rosavto is looking for a price which includes transportation costs in Russia. Further details: Aleksey S Salynikov, ZAO "ROSAVTO", Tel +7 095 924-9358, Fax +7 095 924-9917, E-mail : alexey@rosavto.transit.ru.

Polymers Russian output of polymers increased in 1998 marginally above 1997 volumes, despite the August crisis and a 7.5% decline in the chemical industry as a whole. Total polymer production amounted to 1.6 million tons in 1998, with demand for domestically produced product having increased as a substitute for imports. For the four main thermoplastics total output was down slightly in 1998 against 1997 due to the fall in polypropylene production. Polyethylene and PVC showed increases, with polystyrene fractionally down on the previous year.

**Russian Thermoplastic Output
(unit-kilo tons)**

Product	1998	1997
Polyethylene	592.8	585.5
PVC	296.8	266
Polypropylene	148.7	215.2
Polystyrene	65.8	67
Totals	1,104.1	1,133.7

Despite the downward drift in production over the 1990s Russian per capita consumption of polymer has increased through imported televisions, cars, furniture, packaging, etc. It is now about 25 to 27 kg, compared with 12 to 15 kg in 1990. Base polymers and common industrial resins have been estimated to account for 92% of the market. More complex and specialised plastics make up the remainder. The prospects for this year indicate an improvement on 1998 output for the main thermoplastics, with higher utilisation

rates seen at Tomsk for both LDPE and polypropylene.

Polyethylene Polyethylene prices in Russia remain fragmented, depending largely on the location of the product source and also the method of payment. As a general market trend the past couple of months have witnessed a marginal strengthening in prices, in line with further weakening of the rouble and stronger international prices. LDPE from Kazanorgsintez is being quoted on a Moscow warehouse basis at between 14,900-15,700 roubles per ton. Alternatively, LDPE is available from Budyennovsk at 13,900 roubles. Further details: Aleksey Vitaly, Rizalit, Tel +7 095 406 9174 Fax +7 095 401 5223, E-mail: rizalit@mail.ru.

Russian Commodity Exports

		Q1 1999		Q1 1998	
		Volume (kilo tons)	Value (\$ mil)	Volume (kilo tons)	Value (\$ mil)
Crude	Total	33,425	2,056	32,135	2,862
	non-CIS	27,867	1,822	27,525	2,389
	CIS	5,558	234	4,610	474
Ammonia	Total	574	28	1,319	114
	non-CIS	574	28	1,316	113
	CIS	1	0	3	1
Methanol	Total	58	4	166	18
	non-CIS	53	3	157	16
	CIS	5	1	9	2
Nitrogen Fertilisers	Total	2,076	87	1,470	94
	non-CIS	2,020	82	1,367	84
	CIS	56	5	103	10
Potassium Fertilisers	Total	1,299	115	1,102	99
	non-CIS	1,279	113	1,101	99
	CIS	20	2	1	0
Synthetic Rubber	Total	83	70	70	81
	non-CIS	63	51	58	59
	CIS	20	19	12	22
		(bcm)	(\$ mil)	(bcm)	(\$ mil)
Natural Gas	Total	58,649	3,170	60,721	4,331
	non-CIS	35,442	1,916	33,284	2,710
	CIS	23,207	1,254	27,437	1,621

Gazprom has been linked to Kazanorgsintez as a potential partner in the project to construct a new 120,000 tpa LLDPE unit at Kazan. Salzgitter Anlagenbau GmbH was awarded the contract to build the new plant last year, but the project was placed on hold following the financial default of the Russian government. A rekindling of the project has been helped by Gazprom's interest, which provides considerable kudos with potential investors. The German bank West LB is prepared to open a credit line for the project, dependent on certain conditions. It is envisaged that the credit will be granted for a period of eight and a half years, with repayment beginning six months after the plant starts production.

Russia produced a total of 592,800 tons of polyethylene in 1998, compared to 585,500 tons in 1997

(and not 549,700 tons, as mentioned in last month's report). Total capacity utilisation in 1998 was again relatively low at 55.2%. However, Kazanorgsintez achieved a capacity utilisation rate increase from 89% in 1997 to 92% in 1998. Production rose 1.1% to 94,991 tons at Ufaorgsintez in Bashkortostan, and by 203.7% to 63,161 tons at Stavropolpolimer in the Stavropol region. Stavropolpolimer's feedstock position has improved since LUKoil-Neftekhim took a controlling stake in the company last year. The second Bashkirian producer Salavatnefteorgsintez (SNOS), produced

40,070 tons, down 1.4% from the previous year but still close to full capacity. The main LDPE producer to encounter feedstock and capacity utilisation problems last year was Tomsk Petrochemical Combine.

Exports helped to sustain polyethylene production figures in 1998, although down from the previous year. Russia exported 246,000 tons of polyethylene, against 272,200 tons in 1997. World prices ranged from \$750 to \$900 per ton, with Russian prices at 5,200 roubles per ton. The Russian Ministry of Economy considers that the available capacity that exists in Russia can meet anticipated demand until 2005. Russia has been under-producing in the past few years, due partly to the heavy influx of imported finished products, and there is some hope that the lower valued rouble will eventually turn this situation around. The problem of imports of primary polyethylene to domestic producers have declined since last year, although small volumes of imports are still necessary which Russia does not yet produce itself. However, upgrades to expand the range of polyethylenes are planned at Kazanorgsintez in order to cover these more specialised requirements.

Polypropylene Current pricing for polypropylene in Russia stands at between 13,500-14,500 roubles per ton. Russia produced 148,700 tons of polypropylene in 1998, which was down 44.7% against volumes in 1997. The highest utilisation of the three Russian plants was achieved at the Ufaorgsintez complex in Bashkortostan at 74% of the 100,000 tpa plant, and accounting for 50.1% of the country's polypropylene. The Moscow Oil Refinery continued to edge up production, utilising 66.1% of its polypropylene capacity, also 100,000 tpa. The main limitation on production is the lack of propylene from the refinery. In contrast to the Ufa and Moscow plants, the Tomsk Petrochemical Combine's polypropylene unit worked at only 7.5% of capacity. Overall, capacity utilisation for the three producers was 49.5%.

Although the domestic market is growing Russia still depends on export activity to sustain output levels. In 1998, exports almost doubled to 84,800 tons, or 57% of the total output. Russia imported 11,000 tons. Domestic polypropylene prices ranged from 4,200 roubles to 6,200 roubles per ton. Similarly to polyethylene, Russia looks capable of meeting its own needs for polypropylene until around 2005. New capacity will be needed at some stage, however, as demand is expected to increase dramatically in the medium term. Projects that could be considered include Stavropolpolimer, which has already undertaken part of the construction for a 100,000 tpa unit, and Tobolsk Petrochemical Combine which for the past seven or eight years has been examining the possibility of constructing a propane dehydrogenation polypropylene plant.

In the markets, trading company Firma Tomet is offering polypropylene (produced at Tomsk petrochemical Combine) at 14,000 roubles per ton, inclusive of VAT but dependent on prepayment of transport costs. LDPE is being offered by the same company at between 13,000-15,000 roubles per ton, and methanol at 1,400 roubles per ton. Further details: Firma Tomet, Tel/Fax +7 3822 24 88 19. E-mail: dinamit@mail.tomsknet.ru.

PVC Russian PVC plants produced a total of 296,800 tons in 1998, 11.6% more than in 1997. The rate of growth in output continued upwards from 1997 even if the financial crisis in the latter part of the year limited domestic demand. PVC production in Russia is mainly export oriented, particularly to China, with domestic demand still relatively small. PVC output rose in 1998 at three plants, Plastkart at Volgograd, Kaustik at Sterlitamak and Usolyekhimprom in the Irkutsk Oblast. Plastkart produced 64,000 tons, compared with 62,000 tons in 1997. Plastkart intends to borrow \$1.5 million in Russia and abroad for a period of two to three years, to partially upgrade PVC production and build two new divisions. This should raise overall PVC output by 50% in the period 1999 to 2000. At Sterlitamak, Kaustik increased capacity last year to 120,000 tpa of PVC.

The main production problems in 1998 were experienced at Kaprolaktam (Dzerzhinsk) and Azot (Novomoskovsk), where capacity utilisation was respectively 21.2% and 13.6%. Kaprolaktam saw PVC output drop from 1997 to 1998 by 11.7%, to a volume of 17,760 tons. The company aims to produce 18,700 tons in 1999, dependent on the feedstock situation.

Overall, Russia exported 66.1% of PVC produced in 1998, 10.5% greater than in 1997. Approximately a third of the output was exported to China. Imports into Russia fell to 2.9% of total consumption, against 6% in 1997. Russian prices for PVC averaged between 5,000 to 6,000 roubles per ton for 1998.

Polystyrene Prices for polystyrene in Russia remain firm with feedstock supply bottlenecks keeping operating rates down. Russia's polystyrene capacity stands at 232,500 tpa, but average utilisation rates in 1998 amounted to only 29.8%, marginally lower than in 1997. While some producers saw figures improve last year the vast majority posted lower production levels than

1997. Producers such as Angarsknefteorgsintez have continued to operate at low utilisation rates. Angarsknefteorgsintez has been facing a difficult position on finances since the mother company SIDANKO was declared bankrupt and left Angarsknefteorgsintez with huge outstanding debts. Russia's largest producer of impact-resistant polystyrene, Omskhhimprom, has an annual capacity of 92,500 tons, but hardly operated its plant in 1998. Karbolit of Orekhovo-Zuyevo, in the Moscow Oblast, ran at 4.2% capacity for co-polymers.

CIS- currencies June 21st 1999			
Country	Currency	\$1=	EURO =
Azerbaijan	Manat	3950	4,102.27
Belarus	Rouble	315,000	327,963
Kazakhstan	Tenge	132.775	137.894
Russia	Rouble	24.3550	25.2509
Ukraine	Hryvnia	3.9960	4.1438
Uzbekistan	Sum	570.00	591.574

Polystyrene capacity utilisation was highest in Russia last year at Salavatnefteorgsintez and Plastik (Uzlovaya), with 42.1% and 32.2% respectively. Particularly prior to the rouble devaluation the domestic market was subjected to fierce competition from Western producers. Imports fared well against the poor quality but high prices of Russian polystyrene. Russian production costs are considered to be much higher than

foreign producers. Partly as a result of this factor Russia was a net importer of polystyrenes in 1998, importing 52.4% of its estimated total consumption. Wholesale polystyrene prices last year ranged from 6,100 roubles to 9,300 roubles per ton. Although imports of other bulk thermoplastics practically vanished after the devaluation of the rouble, the low operating rates of Russian polystyrene plants have ensured the need for some imports.

Detergents

Kaprolaktam at Dzerzhinsk is planning to create a joint venture with Henkel to restart production of raw materials for detergents. Kaprolaktam states that the detergent production facilities almost ground to a halt 18 months ago, when it proved impossible to obtain raw material supplies. If Henkel decides to participate in the project, it will invest DM10 million in the plant. Kaprolaktam plans to produce 8,000 tons of detergents in 1999, compared with 900 tons in 1998. External management was introduced for one year at the company by an arbitration court in August 1998. It has managed to stop losses at the plant, increase monthly production in value terms from 30 million to 64 million roubles, and to increase the share of cash in settlements from about 7% of total turnover to about 50%.

Regarding other detergent plants in Russia, NEFIS at Kazan is planning the modernisation of production capacities for natural fatty acids, glycerol and toilet soap. The project envisages modernisation of production capacities, replacement of outdated equipment for toilet soap, erucic acid, palmitic acid, glycerol, detergent powders. AO NEFIS already has the appropriate infrastructure to conduct such a project. The company has received offers for equipment from Italy and Germany. To perform modernisation (acquisition of soap production line, unit for processing of boiled-off lye with glycerol extraction, units for fractional distillation of fatty acids and glycerol) investments are needed in the range of \$30 million. The payback period for the project is estimated at 5 years. The forms of investment include credit, compensation agreements, and shares in joint stock capital.

Procter and Gamble's investment in the Russian detergent sector and the production of Ariel, Tide and Mif washing powders has increased to the extent that Russian demand is fully met and exports of the products have begun. The Novomoskovsk plant has also begun to produce new products, including Comet cleaner and Ace bleach. In the future, the plant will produce powder for automatic washing machines, fabric conditioners and cleaning liquids. The Novomoskovskbytkhim has been the recipient of EBRD loans for upgrading production facilities.

Olefin derivatives

Traders OOO "SKS" are offering products produced in Bashkortostan on a cash payment or veksel (promissory note) basis. MEG is being offered at 7,200 roubles per ton, DEG at 9,840 roubles, TEG at 6,360 roubles, butylene at 6,350 roubles, isobutylene at 5,360 roubles, DOP at 13,700-14,300 roubles, triethanolamine at 7,700, and monoethanolamine at 9,080 roubles. Further details from Pavel Silantyev, Director, OOO "SKS", Tel +7 347 902-2234, Fax +7 34763 33859, E-mail: pasha@salavat.bashnet.ru.

OXO alcohols

In the OXO markets, OAO "Butyl Alcohol Plant" is seeking customers for up to 500 tons of normal butanol from Perm. OAO "Butyl Alcohol Plant" can also supply phthalates from plants in Russia at Roshalsk, Kuskovsk, and Novokhim at Novosibirsk. Further details from Mr Andrey B Bikov, Head of Marketing, OAO "Butyl Alcohol Plant", Tel +7 3422 908-920, 908-620, Fax +7 3422 908-116, 908-155, E-mail: main@oilchim.raid.ru.

OOO PKF "Neftekhimprom" is able to deliver DOP from AO "Kamteks-Khimprom" at Perm and AO "Khimplast" at Novosibirsk in cisterns of 38 tons. The company also is offering phthalic anhydride from AO "Kamteks-Khimprom" and butanols, normal and iso from OAO "Interkhimprom-OXOsintez, located

at Salavat. Prices, including VAT, include DOP 14,500 at roubles per ton, normal butanol 5,500 roubles per ton, isobutanol 5,800 roubles per ton and phthalic anhydride at \$440 per ton. Further details: Oleg G. Rashevskiy, OOO PKF "Neftekhimprom", Tel +7 3422 64 80 60, 64-80-64, 33-80-25, E-mail: ensnab@perm.raid.ru.

ZAO "Plastkoztorg" is offering different types of plasticizers, including DBP and DOP from Moscow warehouses. Further details: Dimitry Popov, ZAO "Plastkoztorg", Tel +7 095 785-2478, Fax +7 095 785-2477, E-mail: dd@quarta-net.ru. Butyl acetate is available from Roshalsk at prices of 8,900 roubles per ton, inclusive of VAT. Further details : Elena V Ermenchenko, OOO "GD Fanagornia", E-mail: betrust@orc.ru.

Fontac Ltd is offering toluene at 7,900 roubles per ton, butanols at 6,900 roubles per ton, and acetone at 4,800 roubles per ton. Further details: Vladimir Alexandrovich, Fontac Ltd, Tel +7 812/ 314 82 20,314 98 87; Fax +7 812 310 22 88, E-mail: fontac@peterlink.ru. All prices FCA St Petersburg.

Aromatics & derivatives

With refining and cracker operations on the increase benzene availability has seen an improvement in the last few months. There is some export activity as derivative plants remain under-utilised. In the xylene isomers' market spot prices are in the range of \$325 per ton fob Rotterdam for paraxylene and \$360 per ton fob Rotterdam for orthoxylene. At these price levels it is difficult for Ufaneftekhim and the Omsk NPZ to make any margin, particularly as the Russian railways are charging high tariffs to move product just to the Finnish border. The trader TDK has been putting out feelers for 200-500 tons of toluene, 200-500 tons of cyclohexanone, 200-500 tons of bisphenol A, 500-2,000 tons of DOP and 1,000-2,000 tons of DEG. Prices sought are DAF Polish border. Further details: Sergey Viktorovich, TDK, Tel + 7 095 946 35 18, Fax + 7 095 946 34 57, E-mail: tdk@softhome.net.

Since last year a problem for Russian caprolactam producers has been the contraction of the South Korean market. In the first four months this year South Korean imports of caprolactam from Russia amounted to 12,727 tons against 26,663 tons in the corresponding period in 1998. However, to compensate Russian exports to China have improved this year which has been beneficial for producers at Kemerovo, Samara and Togliatti. In the marketplace, Russian trader SKS is offering molten caprolactam at 21,000 roubles per ton. This price level is marginally below prices for molten and flake seen in West Europe and the Far East. Further details: SKS, Tel/Fax +7 3832 18 01 04, E-mail: xim100@hotmail.com.

At the end of May the Russian first Vice-Premier Nikolai Aksenenko started examining the problems of reconstructing of Azot at Kemerovo. This company, restarted with assistance from the regional administration in May after two years with little activity, is currently using about 90% of its caprolactam capacity of 124,000 tpa. Azot produced caprolactam enjoys demand in Russia and other countries, with its quality meeting world standards. \$8 million is estimated to be needed to revamp the caprolactam facilities commissioned in 1972. Investments are estimated to be recouped in three years. As far as the government is concerned the fact that the company makes its payments to budgetary and extra-budgetary funds in time, is helpful in settling its problems.

In the maleic anhydride sector, the Novomoskovsk Orgsintez plant is not producing at present. Benzene is the feedstock used for maleic anhydride production at Novomoskovsk. As Orgsintez is the solitary merchant based maleic plant in Russia its stoppage has led to Russian buyers having to seek material in export markets. The problem has been in obtaining material with the Hungarian producer MOL having been sold out in June.

Methanol

Methanol prices in the Russian domestic market are standing in the range of 1,400-1,450 roubles per ton. Export prices, although having increased, are still too low to provide margin after internal transport costs have been deducted. A Russian company, Investment and Corporation Finance, is keen to locate experienced traders in shipping methanol for Tomsk-DAF Zabaikalsk, or FOB Kotka, and within Russia to cities Omsk, Togliatti, Yaroslavl, etc. Of particular interest is the possibility for export and lowering the cost of transport. At present, unrealistic (in relation to the international price for methanol) rail tariffs apply to both Zabaikalsk and Kotka. The Russian railways, the MPS, are prepared to offer substantial price discounts for chemical shipments but only to some of the larger producers. Investment and Corporation Finance states that it can supply up to 20,000 tons per month of methanol for export from Tomsk Petrochemical Combine, and 5,000 tons per month for the domestic market. Further details: Alexander Maier, Investment and Corporation Finance, Tel +7 3822 555578, Fax +7 3822 555300, E-mail: ifk@mail.tomsknet.ru.

Chlorine

Khimprom at Novochebosarsk achieved a profit in the first quarter of 1999 and looks likely to continue this trend for the rest of the year. Since Khimprom was declared

bankrupt in 1996, and an external management was appointed to run the company's business, a major overhaul has taken place from the production to marketing chain. Despite a setback in 1998, following the financial increase which led to a 5.7% fall in sales, the company is pressing ahead with strong growth both in the domestic and export markets.

Khimprom was previously involved in producing chemical weapons. However, over the last three years, Khimprom has stopped its chemical production for military purposes and now focuses solely on consumer goods and plant protection agents. Khimprom holds a monopolist position in Russia and the CIS for cationic dyes and methylene chloride. Khimprom controls about 50% of the Russian and CIS market for herbicides.

Khimprom-Cheboksary Production (unit-kilo tons)							
Commodity	1985	1993	1994	1995	1996	1997	1998
Caustic Soda	125,361	95,094	71,840	73,029	62,820	82,988	64,554
Chlorine	50,437	43,595	29,410	25,440	10,521	5,469	6,679
Hydrogen Peroxide	63,335	52,460	49,403	51,662	33,626	31,324	24,496
Methylene Chloride	13,839	8,897	8,311	8,334	12,288	16,597	15,242
Aniline	n/a	11,677	9,344	8,410	6,220	11,301	12,160
Chloroform	7,805	4,941	5,003	4,972	3,956	3,000	n/a

The joint venture with Du Pont for herbicide production, started in late 1997, is of major significance to Khimprom. In 1998, Du Pont invested \$2.1 million in the

project and a similar amount is expected this year. Another project of interest is for the production of pharmaceutical intermediates for the Russian market.

OAO "Srednevolzhsky Zavod Khimikatov" (Srednevolzhsky Chemical Agents Plant), at Chapayevsk, in the Samara region, has launched a new line for production of bottled liquid chlorine. The facility is expected to bring the plant an extra 3.5 million roubles in profits a year. The company intends to expand sales in Samara and neighbouring regions.

In Bashkortostan, ZAO "Kaustik" is offering perchloroethylene on a direct sales' basis, in volumes of up to 300 tons per month at a price of 6,000 roubles per ton, before VAT. Discounts are offered for cash payment. Exports of perchloroethylene would be considered. Further details: Albert G Usupov, Marketing, ZAO "Kaustik", Tel +7 3473 25 26 39, E-mail: kaust@str.bashnet.ru. Uralkhimprom is acting as a trading representative for Kaustik at Sterlitamak, offering caustic soda, calcium hypochlorite, epichlorohydrin, etc. Further details from Aleksey V. Korkhov, Uralkhimprom, Tel +7 3432 707239, Fax +7 3432 707240, E-mail: chimcom@emts.ru.

Speciality chemicals

OAO "Pigment" at Tambov is looking for assistance for developing a programme for product marketing and market research. Pigment produces a wide range of products, including pigments, organic dyes, sorbic acid, resins, maleic anhydride, etc. Further details: Irina M Kosik, OAO "Pigment", Tel +7 752 21 03 41, 29 50 26, 29 54 60, Fax +7 752 21 46 67, 21 13 98, E-mail: kim_sbt@krata.tambov.ru.

Belarus

Azot at Grodno is operating both of its caprolactam units, with most exports going to West Europe. However the company is facing major challenges with fertiliser sales down, the main production activity. A 20% reduction in the price of natural gas, introduced by the Belarussian parliament for Azot for April and May, has not made any difference to the company's plight. Calcium chloride is an important product for Azot but for production to be profitable the domestic price would have to be increased substantially. In the first quarter of 1999 Azot incurred losses of 80 billion roubles through the non-payment for electricity, steam and gas. The profitability of the production operations went down sharply in this period.

Polimir (Novopolotsk) Product Requirements	
Product	Volume (tons per month required)
Ammonia	1,000
VCM	100-600
Acetic Acid	55
Titanium Dioxide	15
Caustic Soda	500
Soda Ash	15
Propylene	2,000
Polypropylene	7
Offers can be made to the Marketing Department +375 2144 77878, 77978, 77974	

The management of the polyethylene and acrylonitrile producer Polimir at Novopolotsk is seeking out the possibility of being transformed into a private share company. However, the question of changing the structure of ownership faces serious obstacles, involving the inclusion on the government black list of companies being exempted from privatisation.

A precedent would have to be made in taking the company off this list. Nonetheless, the General Director of Polimir believes that privatising the company is important for the future of the complex, and in particular a project to reconstruct an LDPE unit.

Polimir has two olefin units with a total annual capacity of 145,000 tpa for ethylene and 98,000 tpa for propylene. The first line was established in 1967 and the second in 1974, based on imported equipment. The main raw material for olefin production is naphtha, or light hydrocarbons of gas. Polimir runs two HDPE units with a total annual capacity of 135,000. The acrylonitrile unit was started in 1971 based on the technology of Asahi Chemicals. Total annual capacity is 86,000 tpa. Other production units at the complex include polyacrylic fibres.

The revamp of the LDPE unit is aimed at providing the necessary raw materials for the Boriskov Plastics Plant to produce gas pipelines for the Chernobyl region. The development of gas pipelines is part of the government investment programme. The value of the LDPE project at Novopolotsk is placed at \$70 million, which could be raised through the sale of shares in Polimir.

This year the polyethylene facilities at Polimir have been working at about 96% of capacity, and acrylic fibres at about 90%. Average utilisation for the whole complex is 85%. Exports from the complex are between 45-50% of total output, with Russia taking up to half of these volumes and the remainder being sold to West Europe and the Far East. Along with Kazanorgsintez, Polimir is a major supplier of polyethylene to the Russian market. As of May 1 this year, the total number of employees at Polimir was 6,741.

Ukraine

According to the Ministry of Agriculture several Western producers of agrochemicals will close or cut their businesses in Ukraine due to massive debts by local consumers. Monsanto has been the most prominent company to exit the market. Ukrainian farms are estimated to owe Western chemical producers a total of \$215 million for last year alone. Slow reforms in Ukraine's agricultural sector and the absence of private land ownership also have helped to ward off investors.

JSC "East Ukrainian Association" is searching for consumers of polyvinyl acetate dispersions, ammonium carbonate salts, acetic acid, sodium nitrate, urea formaldehyde resins, and methanol. Further details : Dmitriy A. Krygin, JSC "East Ukrainian Association", Tel/Fax +380 62 332 32 40, E-mail: dmitriy@sku.donetsk.ua.

The Ukrainian company Resource is interested to find long term suppliers for PVC (200 tons per month), epichlorohydrin (100 to 500 tons per month), benzene (to 300 tons per month), orthoxylene (500 tons per month), paraxylene (500 tons per month), DBP (100 tons per month), and DOP (200 tons per month). Further details can be obtained from Vladimir Mikheev, President, Resource, +380 44 264 98 34, Fax +380 44 264 98 30, E-mail: zav@euro.resourcecorp.net.