

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

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## **CENTRAL EUROPE**

### ***Olefins***

With the commencement of olefin projects underway at Litvinov attention is now focusing on the derivative projects, involving HDPE and polypropylene. The details of the olefin expansion are that Chemopetrol has awarded contracts to upgrade the ethylene and propylene facilities to Technip Benelux. Ethylene capacity will be increased from 450,000 tpa to 560,000 tpa by 2003 and propylene to 280,000 tpa. Approximately \$129 million will be invested in the project which will be completed over three stages. The first stage will include the revamp of the four cracker furnaces, in addition to the replacement of the major turbines and debottlenecking. This stage is expected to be undertaken during the summer shutdown at Litvinov in 2000, and will increase capacity incrementally to 485,000 tpa by 2002 before completing the expansion to 560,000 tpa a year later. Financing for the project has been backed by the German credit agency for Unipetrol, the holding company for Chemopetrol.

By contrast, plans for developing olefin production facilities in Slovakia are more likely to be delayed by company ownership changes. Slovnaft does not expect to decide upon a strategic partner quickly and it may be the end of the year before a decision is taken. The key to Slovnaft's future depends on Slovintegra, the group formed from Slovnaft's management which holds 51% of the shares. The underlying plan is that Slovintegra and the intended foreign partner will manage Slovnaft jointly under the terms of a 67% shareholding.

OMV, the most logical favourite partner, has stated that it would be prepared to spin off its refining business into a joint venture with Slovnaft. The main uncertainty (which has been an obstacle in previous negotiations) is whether Slovnaft would be prepared to give up a majority stake to a foreign partner. Ideally, OMV would probably seek to run the two plants on the basis of a single refinery which could produce substantial economic savings. There is also the potential for co-operation in the petrochemical sector. This year Slovnaft expects to make a pre-tax loss of Sk 2.83 billion compared to a pre-tax profit of Sk 0.91 billion last year. The expected loss comes from the currency fluctuations affecting the loan arrangements.

Depending on which partner a strategic relationship is eventually formed Slovnaft may be supportive of the much discussed idea of a Central European ethylene pipeline. TVK has been the prominent player in trying to promote interest in pipeline construction in Central Europe, in order to help to overcome product shortages and to give producers far greater flexibility. To make the pipeline a more viable concept talks have been underway over the possibility of building a Central European cracker that would serve the regional petrochemical plants depending on derivative requirements.

Where such a cracker, perhaps with a minimum of 500,000 tpa, would be located is far from being decided and will probably be determined by the feedstock position. The idea of a pipeline connecting the regional petrochemical plants is felt not to be much help without new capacity. This is because none of the producers has a surplus, with the exception of Chemopetrol which is probably only temporary in view of the planned downstream projects for polyethylene.

Rumours are prevalent that a percentage stake in Unipetrol will soon be acquired by a foreign investor, allegedly from the European Union. The share purchase is being conducted through a Czech brokerage called Able Maklersky Dum. 63% of Unipetrol is owned by the state through the National Property Fund. According to updated figures provided by the Central Securities Registry, no other shareholder owns more than 10% of the company. The package of shares is expected to be transferred to a new owner by mid-August at the latest.

In Hungary, as part of its streamlining operations, MOL stated in late July that a new chemicals' business unit will be set up to manage its relatively large chemical product portfolio. At Tiszaújváros, after completion of the cracker expansion, TVK can now produce ethylene and propylene with better economics and lower cost from energy consumption. The ethylene capacity of the cracker increased from 290,000 tpa up to 350,000 tpa and the propylene production from 145,000 tpa to 180,000 tpa. The expansion of propylene production will be used by the new polypropylene plant of TVK. The ethylene will replace deliveries from Kalush and gives an opportunity to expand the capacity of the polyethylene plants. The capex budget of the project was Ft 11.8 billion and the payback period is estimated at less than 3 years.

<b>Central Europe-currencies July 29th 1999</b>			
<b>Country</b>	<b>Currency</b>	<b>\$1=</b>	<b>EURO =</b>
Czech Republic	Koruna	34.62	36.74
Hungary	Forint	238.160	252.771
Poland	Zloty	3.8350	4.0703
Slovakia	Koruna	42.133	44.717

TVK's start up after expansion was delayed until June 10 due to technical problems. Subsequently, the polymer plants were restarted, and the transfer of ethylene was also resumed to BorsodChem. Due to the delayed restart of more than two weeks TVK encountered a shortfall of approximately 13,000 tons

of ethylene and 6,200 tons of propylene. However, there is a good chance that the company can make up these shortfalls in the remainder of the year.

**Fertilisers** The Polish Treasury Ministry has invited bids for at least 10% stakes in four of the major fertiliser plants. The Sejm Treasury Committee's announcements on a tender for privatisation advisors in the heavy chemical industry appeared initially on April 12. The plants include Zaklady Azotowe Police SA, Zaklady Azotowe Kedzierzyn SA, Zaklady Azotowe Tarnow SA, and Zaklady Azotowe Pulawy SA. The Polish Treasury Ministry is also in the process of selecting bidders for the sale of at least 10% in the fertiliser producer Superfosfat at Szczecin. The key role of selected advisors in the privatisation of these companies will be to prepare strategies of ownership transformation. The government has stated that it is prepared to accept a privatisation strategy of the entire chemical sector in the second half of the year, while the actual privatisation would be expected to take place in the year 2000.

**PVC** BorsodChem has injected around Ft 60 million into BC-Polska, coupled to about Ft 90 million being allocated Bank Handlowy for BC-Polska's current account. BorsodChem has been increasing its exports to Poland as the Polish market continues to expand. In 1998, the company exported through its Polish subsidiary about 27,000 tons of different PVC grades, in addition to expandable polystyrene which is produced at Kazincbarcika.

A Ft 34 million guarantee has been given to BorsodChem for expanding the subsidiary BC Ablakprofil, which produces PVC window and door profiles. Ablakprofil produced 4,300 tons of PVC in 1998 and expects to produce 6,000 tons in 1999. BorsodChem has also increased capital at the subsidiary Grafol Vegypari, another PVC processor. The investment has been to increase capacity at the plant. In 1998, Grafol produced about 2,500 tons of PVC profiles and pipes and has been receiving more orders this year.

**Fine chemicals** In Hungary, Nitrokemia Rt has decided to sell its subsidiary, Varion Ioncserele Gyanat Gyarto Kft, which manufactures ion exchange materials. Nitrokemia has a stake of 96.7% in the company, and 3.3% is owned by Nitrogep Kft., which is solely owned by Nitrokemia. Varion's production is estimated to amount to between 2.5-3% of world supply. However, it has been reducing its output since the early 1990s in response to the advances in technology that have been achieved by competitors.

Over the past few years the company's annual revenues have been in the range of Ft 1-1.7 billion. The company's capacity utilisation rate could possibly be doubled but the company is lacking markets. Varion exports about 40% of its production to the US and CIS countries. Between 7-8% goes to Europe and 7-8% is sold in the domestic market. There is diverging opinion whether the company can operate without a loss should it become independent from Nitrokemia.

In the Czech Republic creditor banks and AliaChem on July 9 agreed that Chemapol Group's bankruptcy administrator will facilitate the banks' representatives joining AliaChem's supervisory board. The creditor bank representatives were appointed onto the board at AliaChem's annual general meeting on July 15. The joint approach is aimed at making it possible for AliaChem to take part in the government's industry revitalisation programme, which would create suitable conditions for finding a new strategic partner.

In Slovakia, there is some controversy over the way that the Slovak National Property Fund has regained a 67% stake in Istrochem, a major domestic producer of chemicals for the rubber industry. Istrochem was privatised initially in 1996.

**Plastics** In eastern Germany, BASF GE Schwarzeheide, a 50-50 joint venture between BASF and GE Plastics, has increased production for PBT from 60,000 tpa to 80,000 tpa. In Hungary, BorsodChem Rt expects to complete the loan of 100 million euro by September to help finance the new TDI project at Kazincbarcika. Several banks could be involved. The introduction of 60,000 tpa of TDI capacity is designed to reduce the exposure by BorsodChem to commodity fluctuations, particularly for PVC. The project is being targeted for completion in 2002. The market in East Europe and the former Soviet Union for TDI is relatively small, estimated in the range of 40,000 tpa at present, but there is still dependency on imports from outside the region. In view of the steady growth projected in the next few years therefore BorsodChem will be well placed to serve the needs of the local market. TDI will also be compatible with BorsodChem's MDI facilities.

Zaklady Azotowe Pulawy is undertaking project plans to construct a second melamine unit, which will have a capacity of 30,000 tpa, and will raise total capacity to 62,000 tpa. The project is scheduled for completion by March 2001. An Italian company Eurotecnica has been awarded the contract for constructing the unit, and a loan of DM124 million has been arranged by the Bank Przemyslowo-Handlowy Krakow to support the project.

TVK has opened a new 15,000 tpa polypropylene film plant at Tiszaujvaros, increasing existing capacity by about a third. In addition to providing technical support for construction design and operation of the new unit, Mobil Plastics (Luxembourg) will market the product. Operating at full capacity the expansion could help raise TVK's sales by 100 billion forints over the next ten years.

## SOUTH EAST EUROPE

**Olefins** Four offers were received for the Neftochim refinery and petrochemical complex in Bulgaria, but it is unclear at this stage which company would be the favourite. Bidders include LUKoil and the Turkish company Akmaya Sanayi ve Ticaret, which has also been involved in Romania with the purchase of Petromidia. However, the Akmaya deal in Romania was annulled last month due to its failure to comply with contractual obligations. Thus, the Romanian State Ownership Fund (SOF) may be now forced to look for another buyer. This may well attract Russian interest, with LUKoil as a favourite. Another bidder for Neftochim is Lokomat Services which is an offshore company organised by the present owners of the Plama refinery at Pleven, Andre & Cie.

Paradoxically, the bombing campaign conducted by NATO against Serbia actually helped to increase demand for Neftochim's refinery products. Sales of fuels increased 60% in the April and May, due to the growing amounts ordered by Shell which supplies NATO planes with reactive fuel. A total of 420,000 tonnes of fuel were transported in May and June. Neftochim started to work with 90% of its capacity, thus refining 20,000 tons of oil per day.

The picture on Petromidia is unclear. Around 700 Petromidia workers protested in early July against the government's lack of decisiveness. Protesters called for facilities to be granted to Akmaya, or solutions to be found for oil supply. Following this protest the government decided not to grant facilities to Akmaya, and is preparing to cancel the contract. Akmaya announced that it would sue the Government of Romania to determine it to comply with the contract. Petromidia refinery has been closed for four months as the company lacks the funds for oil imports.

The management at Petromidia appreciates that the government decided to respond officially to the need to clarify the situation of the contract signed with Akmaya. Although it might be difficult to start from scratch again Petromidia's survival is important for the Romanian oil refining and petrochemical industries. The management considers that there are large regional market opportunities in view of the reconstruction programme of Yugoslavia, and also that prices on the fuel market at present represent favourable conditions for the strengthening of the company. Against this background, the parameters are felt right for Petromidia to run efficiently, possibly registering a profit. The main problem of the refinery is the lack of a guarantee from the state for funds necessary for oil imports. If a company can supply crude to Petromidia it will, according to the Romanian government, have a better chance of acquiring an interest.

**Aromatic derivatives** The Romanian State Ownership Fund (SOF) has initiated a restructuring programme in the synthetic rubber and phenol producer Carom at Onesti. The programme started on the July 1 and is to be applied during the next twelve months. By the middle of 2000 Carom will need to achieve profitability if it is to survive as an entity. The measures included in the

programme involve technological modernisation, and also imposing redundancies of around 300 employees of the present staff numbers of 2,600.

Carom is in a delicate situation after several months of production losses. After changing the management in March this year a process of rehabilitation was started. The company made a profit in the month of March, registered losses again in April, but in the month of May it had a profit of 1.8 billion lei. The best prospects rest in export markets with the domestic market flat. After stoppages elsewhere in Romania Carom remains the only domestic producer of phenol and acetone. Efforts are being made to borrow funds to support unit revamps, and also to introduce measures to save energy. Finance is the main problem for Carom, but it is possible that funds could be made available to support the efficiency programme from the central government.

At Rimnicu Valcea, Oltchim is planning to build a second plasticizer unit with a capacity of 30,000 tpa, in addition to constructing a new phthalic anhydride plant.

**Fertilisers** The US company IBE Trans has been nominated the exclusive purchaser for a 57% stake in Chimco, the fourth time the Bulgarian Privatisation Agency has attempted to sell the urea and ammonia producer. Georgia has agreed to reduce import duties of Bulgarian nitrogen fertilisers although they will remain at 12% for the next five years before being reduced to 10%.

The liquidation of the fertiliser producer Agropolychim has already been initiated. The state holds 85% of the capital stock. Liquidation must be completed by June 30, 2000, according to the resolution. The collapse of the Norsk Hydro deal has effectively spelt the end for Agropolychim in the sense that it would be sold off as a going concern. Now it may be that separate units are sold off. Norsk Hydro announced its withdrawal from negotiations with the Bulgarian Privatisation Agency due largely to the natural gas price which they wanted frozen. Bulgargaz refused to grant such price conditions.

In fact, the price of natural gas in Bulgaria rose by 6.6% from the start of July to 178,000 leva per 1,000 cubic metres VAT included. The reasons for the increase are due to the higher delivery price of the Russian gas and the high exchange rate of the dollar. In addition to higher prices the head of Gazprom warned recently that if Bulgaria does not accelerate the construction of a new pipeline to Turkey, another pipeline would be laid through the Caucasus.

Norsk Hydro had agreed to pay a nominal \$1 for the Agropolychim plant at Devnya in exchange for taking on responsibility for the debts valued at 51 billion leva. Agropolychim's main creditors are Bulgargaz and the recently privatised copper smelter MDK Union Miniere which supplies Agropolychim with sulphuric acid. Union Miniere has shown interest in Agropolychim's phosphate operations which uses sulphuric acid produced by MDK. The phosphate section owes \$7 million to MDK and Union Miniere has suggested a debt-equity swap.

The fertiliser and caprolactam producer Agrobiochim at Stara Zagora has sold half of its stock in the Bulgarian-Russian joint venture Intermethanol to two other Russian shareholders, Azot at Novomoskovsk and Agrokhiminvest at Moscow. With the funds from the sale Agrobiochim was able to settle outstanding debts. The venture Intermethanol consists of a new methanol plant in Bulgaria which has been under construction for the past ten years, passing a series of projected deadline start-ups without success. Although Bulgaria relies on imports of methanol the domestic market is not large enough solely to justify construction. In view of the weak position in export markets Agrobiochim may decide to sell off its remaining shares in Intermethanol.

Agrobiochim has been facing its own difficulties in trying to find a buyer with only the Spanish company Polyseda interested in the caprolactam unit. The nitrogen fertiliser section has attracted interest from Union Miniere MDK, which has proposed a similar debt for equity exchange to Agropolychim. However, the government may not be prepared to consider such arrangements.

The Romanian Ministry of Agriculture has drafted a damage limitation scenario aimed at protecting fertiliser output, considered essential, until 2005. This involves a necessary quantity of 2,220 tpa broken down as follows: 29.7% simple fertilisers with nitrogen, 9.8% simple fertilisers with phosphorus, and 60.5% complex fertilisers. This option requires keeping production running at all eight plants which are still active, with immediate investments (1999-2000) of about \$270 million, intended for energy equipment, providing direct subsidies for producers through special vouchers for fertilisers and their rational use, and the provision of financial and banking facilities.

Domestic demand for fertilisers in Romania has dramatically reduced since the revolution of ten years ago due partly to the changes that occurred in land ownership, with the large state farms being now replaced by small individual plots. The decline was also emphasised by the lack of financial means for purchasing raw

materials and utilities, the disadvantageous credits for both producers and clients, and high consumption of raw materials and electric power. Moreover, the summer of 1997 witnessed the collapse of the Asian markets, which were large importers of fertilisers. Most Romanian plants are profitable only in terms of production. Losses are caused by expenses such as interest rates for credits.

In order to support the fertiliser industry, the government prepared a decision allowing for the natural gas to be sold to the fertiliser plants at the price of \$40/1,000 cubic metres, compared with the normal price of \$67. Thus, about one third of the fertiliser plants' consumption will be at a lower price. The Ministry of Agriculture also supports the introduction of prohibitive custom duties for imports of fertilisers at dumping prices, and export incentives.

Leading fertiliser producer Doljchim at Craiova was cited as effectively finished until it was privatised recently. Since 1996 the company had been on the edge of bankruptcy. Thin gross earnings of \$5 million on turnover of \$83 million in 1996 rapidly evaporated as Doljchim made net losses of \$9 million from a \$60 million turnover. In 1998 Doljchim posted very poor results, with net losses of \$5 million on a tiny turnover of \$14 million. Earlier this year, plagued by heavy losses and a debt burden of some \$21 million, Doljchim caved in and filed for bankruptcy. Doljchim produces and trades fertilisers together with other three big plants in Tg. Mures, Bacau and Turnu Magurele, and also chemical products vinyl polyacetate, butyl acetate and methanol. Since 1993, the ethyl acetate and polyvinyl alcohol units have not been producing despite Doljchim being the only producer in Romania.

After three failed attempts to privatise the company, the 76.12% stake held by the State Ownership Fund (SOF) was finally sold for \$15.1 million in June to EP Commerce Bourgas, part of a Russian-Bulgarian consortium dominated by Neftochim and by LUKoil. EP Commerce outbid the other bidder, Romania's national oil company Petrom, by a narrow \$75,000. The buyer accepted very harsh debt payment conditions, with \$6 million worth of debt to two Romanian banks to be paid back within a week and the rest due very soon afterwards.

The SOF is now working on the basis that it is much easier to privatise a company after it has filed for bankruptcy, as borne out by the Doljchim case. Strangely, a company that has filed for bankruptcy is attractive for a number of reasons. All debt-related problems are settled, once for all. The buyer does not have to worry about overstaffing and making redundancies, an all too common problem for most Romanian companies. The new owner starts from scratch, hiring only those employees it needs in terms of quantity and of quality.

Perhaps the most striking features of the Doljchim deal was that Petrom was outbid by a virtually unknown company. There is suspicion of political interest and it has been rumoured that certain circles did not want Petrom extending further influence over domestic industry. Petrom's annual turnover is over \$3 billion, roughly 10% of Romania's GDP. Its interest in Doljchim stemmed from certain synergies that would have developed were Petrom to win the competition. SNP Petrom showed its intention initially to take over the plant by paying all its debts. The plant has a debt of 108,441 thousand lei toward Petrom for natural gas deliveries.

Petrom extracts large amounts of associated gas as part of its core oil drilling activities. During warm weather the company can hardly find customers for the gas. Last summer it had to shut down wells and lost some \$10 million worth of sales. Conversely, Doljchim is the largest natural gas consumer in the Dolj region and its key problem is precisely that of sporadic, and expensive, natural gas supply. This is a problem Petrom would have been well placed to address but for whatever reason the SOF chose otherwise.

A positive outcome from privatisation in Romania has resulted for Azochim SA Savinesti which began functioning again with after the installation of new production units for ammonium nitrate and granulated nitro-limestone. Privatised in 1998, when SC Inter Agro Bucharest bought the majority stake, the company benefited from a capital input of DM30 million dedicated to the modernisation programme that had begun in 1994. The financial support schedule encompassed important banks such as Societe Generale, ABN Amro, Bank Austria, and Bancorex. The inauguration of the new production unit created 66 new jobs. Azochim has already concluded firm contracts with clients from Germany, Belgium, UK, France and Italy.

#### **Chlorine/Soda**

The prospects for completing the privatisation of Chimcomplex have receded with the reported withdrawal of BorsodChem from negotiations. The initial deadline set for completing the transaction was April 25, which was not met, followed by June 24, which was also not met. There seem to be a wide range of factors explaining the collapse of the process, but Chimcomplex hopes that the deal is not completely dead. As far as Chimcomplex is concerned the prolongation of the privatisation throws future investment plans into uncertainty. Even so, Chimcomplex remains one of the more viable chemical plants in Romania, after a large-scale modernisation programme in the 1996-1998 period.

The Bulgarian government has established a group to support a consortium of Solvay Sodi, the EBRD and Sisecam of Turkey with a view to investment in energy supply and input extraction operations. Solvay Sodi has expressed interest in acquiring three Bulgarian companies: the Devnya Thermoelectric Power Station, Geosol of Provadia (the unfinished salt plant), and the Limestone Quarrying Plant at Chernovo. The Devnya soda ash complex has interests in all three companies.

Solvay Sodi wishes to secure a package deal for all three companies. Regarding Geosol, Solvay Sodi is interested in purchasing the its equipment and integrating the production at Solvay Sodi. In addition to these planned acquisitions, Solvay Sodi is planning to invest DM300 million for co-generation at the chemical complex at Devnya.

A new installation for electrolytic caustic soda production was commissioned recently at the Polymeri complex at Devnya. The new equipment reduces the amount of vapour per unit of production by about three fold. The subsequent reduction in energy costs will contribute to improving profitability in caustic soda production. The project started at the end of 1997, with the majority 67% holders AKB Corporation investing 30,000 million leva. This represents one of the most prominent investments in the complex in the past few years.

**Fibres** Negotiations are taking place for the sale of the Bulgarian company Vidachim which produces polyamide fibres and automobile tyres. A US company Scar Scarp, together with the management-employee companies Vidloninvest and Vidainvest, submitted an offer at the end of May for Vidachim which has already been put forward for liquidation. The price for the entire company, including a thermoelectric power station, is a nominal \$1 but the new owners would inherit Vidachim's debts and would need to invest considerable sums to modernise the production facilities.

The Bulgarian state currently owns 95.56% of Vidachim. If the purchase proceeds Scar Scarp will hold 92% of Vidachim and the two management employee companies 8%. Initial investments of \$10 million are projected for the first year, of which \$1.5 million would be allocated to back wages and creating new jobs, \$3 million would be designated for maintenance and reconstruction, and \$5.5 million for raw materials and covering operating costs.

Changes seem imminent in the Romanian fibre producer Melana Savinesti with redundancies expected before the SOF offers the company for sale. At present the company is facing difficulties with very low capacity utilisation rates. The SOF owns 39.9% of the shares at Melana, Rifil Savinesti owns 16% and the rest are owned by the Employees Association (PAS) and by the small shareholders. Also in the Romanian fibre sector the Administration Board of Fibrex Savinesti met at the start of July to discuss new variants of privatisation involving the establishment of a Romanian-Italian joint venture. In the coming weeks Fibrex must analyse the pluses and the minuses concerning the various options with the Italian partners.

**End-use industries** In the varnishes' and paints' sector Romanian companies have faced problems in recent years due to obsolete technology, a lack of development funds and the inability to respond fast to clients' demands. Survival in a competitive environment has been possible only with the involvement of foreign investors. The Romanian output of varnishes and paints was 44,000 tons in 1996 and decreased to 32,000 tons in 1998, an amount equivalent roughly to 20% of the output in 1989. The main reason for this decline is attributed to the collapse of the Comecon market, which absorbed about 80% of Romania's chemical exports.

In the domestic market Romanian companies now have to compete with the Turkish companies which have been quite aggressive on pricing and advertising campaigns. The custom duties for Turkish products are 8%, and although CEFTA member states have zero custom duties they often lack a strong distribution network. The sectors in Romania that will register the highest increase in demand in 1999 are forecast to be: household paints (a 15% increase against 1998), paints for automobiles (production development at Dacia and repainting used automobiles that have an average age of 15 years), and the paints for industrial use, including the paints for road marking (a 10% increase). The furniture industry, another important client of the varnish producers, has seen a downward trend and consequently no increase in demand is forecast.

The most important paints' and varnishes' producer is Policolor Bucharest. The shareholders structure is as follows: Romanian Investment Fund (29%), Romanian-American Fund (27%), SG Romanian Fund (11%), RIC - Cyprus (10%). At the end of January 1999, it improved its joint-stock capital issuing 7.5 million shares with a face value of 1,000 lei per share. The financial consolidation was the last step before taking over Orgachim at Rousse, the leading Bulgarian producer of varnishes and paints. This transaction could have an important bearing on Policolor's profits. The main target of Policolor is to maintain its current share of 35-40% on the Romanian market.

Policolor is now following its four year (1998-2001) investment programme, valued at \$18.4 million and aims

at bringing in new technologies (about 36% of total investment) and conducting more research. New production capacities (about 20%) are to be constructed; marketing will receive 18% of total investment and special programmes for environmental protection (about 15% of total investment) are to be implemented. Quality control is very rigorous and the company was awarded an ISO 9001 certificate at the beginning in 1997. In respect to exports, the company's main objective is to reach a 10% turnover level during the next couple of years. Currently, Policolor exports to Egypt, Israel and Bulgaria. Countries such as China, Russia, and Ukraine are viewed as potential markets.

#### South East Europe-currencies July 26th 1999

Country	Currency	\$1=	EURO =
Bulgaria	Lev	1,870.85	1,946.19
Croatia	Kunar	7.1676	7.6073
Macedonia	Dinar	58.6467	62.2447
Romania	Lei	16027.5	17010.8
Slovenia	Tolar	186.139	197.558
Yugoslavia	New Dinar	10.9231	11.5932

Deutsche Bank has bought stakes in three pharmaceutical companies in Bulgaria, through its 99.6% subsidiary Balkanpharma in Sofia. The companies include TroyaPharm of Troya (55%), Pharmacia of Doupnitsa (55%), and Antibiotic (51%). The amounts paid were \$7.35 million, \$11 million, and \$5.7 million respectively. Nova Technology of Ireland has been selected for talks

for a 67% stake in Sopharma in Sofia. The minimum bid required for Sopharma is \$31.5 million.

In 1998, Henkel Romania achieved a turnover of over 400 billion lei with the profits reinvested in new production facilities. Henkel considers Romania to be a country with important strategic potential. According to the turnover, Romania lies in fifth place with 6% after Austria (30%), Poland (26%), Hungary (14%) and the Czech Republic (10%). Henkel Romania was established in 1994, as a branch of the Henkel Austria company which became Henkel Central Eastern Europe. It has acquired an important position on the Romanian market of detergents for laundry and of cosmetic products.

## BALTIC STATES

#### Baltic States-currencies July 26th 1999

Country	Currency	\$1=	EURO =
Estonia	Kroon	14.749	15.654
Latvia	Lats	0.5952	0.6317
Lithuania	Litas	4.001	4.2471

In Lithuania, US company Cargill has consolidated its interest in the fertiliser producer Lifosa by taking a 15% stake. Cargill already co-operates with Lifosa for product sales from the plant to the US market, but with the 15% stake has won exclusive rights to its phosphate fertiliser exports.

The US company Williams has stated that it would welcome a Russian oil company as co-owner of the national oil company Mazeikiu Nafta. This move may help to secure the supply of crude oil to the country's only refinery and new oil terminal. Williams plans to buy a 33% stake in Mazeikiu Nafta for \$150 million, with the right to buy another 33%. The sale has been repeatedly delayed and is now planned for mid-August.

Lithuania's decision to sell the stake to Williams upset LUKoil, the main supplier of crude oil to Mazeikiu's refinery. Earlier this year, Russian producers twice stopped supplying oil to Mazeikiu, shutting the refinery down. Although Williams has stated it would accept LUKoil, or another Russian investor, Williams' main concern is that it would have operational control over Mazeikiu Nafta. Mazeikiu Nafta was created through the merger of the Mazeikiu refinery, the Butinges Nafta oil terminal, which was opened officially in July, and the Naftokiekis oil pipeline. Lithuania wants to attract investment to overhaul its oil transportation network and allow it to compete with neighbouring Latvia in oil and oil products transit to international markets. Russian oil producers use the Latvian port of Ventspils for crude oil transit. YUKOS is already shipping crude through Butinge, and is expected to ship 2.5 million tons through this route by the end of 2001.

In the first half of this year Mazeikiu Nafta recorded a loss of 47.24 million litas (against 20.7 million litas in 1998) from a total turnover of 1.08 billion litas (against 1.438 billion litas). Most of the loss this year stemmed from the first quarter with the 26 day shutdown at the refinery. Another factor behind the loss is the switch of oil products from Mazeikiu to the lucrative Ukrainian market to the West European market where margins are tighter.

## COMMONWEALTH OF INDEPENDENT STATES

### Russia

Russian industrial output in the period January-May this year showed an increase of 1.5% compared to the same period in 1998. As an individual sector an aggregate 11% increase was recorded for the chemical and petrochemical industries, a positive sign that domestic production has benefited from last year's devaluation of the rouble. Good increases in production have been recorded in Tatarstan and Bashkortostan.

#### **Oil refining**

In the first quarter this year, LUKoil improved its operating performance by increasing year

on year oil production by 2% (to 16.129 million tons), gas production by 3% (to 1.071 billion cubic metres), and refinery runs at its own refineries by 5% (to 4.284 million tons). The refineries increased production of motor gasoline by 4% (to 659,000 tons), diesel fuel by 24% (to 1.253 million tons), fuel oil by 2% (to 1.030 million tons), lubricants by 11% (to 154,000 tons). Export sales of crude oil to non CIS countries amounted to 5.319 million tons (101% year on year). Export sales of petroleum products more than doubled and amounted to 910,000 tons. LUKoil's main marketing subsidiaries shipped 60% more oil products compared to last year.

BP Amoco has come under criticism in Russia in its efforts to acquire and repatriate earnings to cover the \$571 million it paid for a 10% stake in SIDANKO in 1997. SIDANKO is now effectively bankrupt. Western shareholders, who are also SIDANKO creditors, are currently focused on boosting crude oil exports out of Russia at the expense of domestic refining in order to make good their investments.

Norsi-Oil is preparing to put 50% of its shares under trust management by Tatneft, which already owns 8.12% of Norsi. The transfer is envisaged by draft Russian government documents, submitted for consideration by Norsi. According to the documents, Tatneft would supply 30 million tons of its crude to Norsi over three years. However, it is unclear where Tatneft will find the spare crude, as the company extracts just 23-25 million tons a year, much of which goes to export.

### **Olefins**

The Tatarstan Prime Minister stated in late July that growth in regional petrochemical production in the first six months of this year was the strongest recorded over the last five years. Growth in production through June was 5.5% against June 1998, with Nizhnekamskneftekhim recording 4%. Pre-tax profit at Nizhnekamskneftekhim for the first quarter of 1999 was 545.512 million roubles, almost four times higher than in the same period last year. In order to improve feedstock supplies to petrochemical producers in Tatarstan quotas will be introduced in the exporting of raw materials from the republic. The local government has also agreed upon a restructuring of the companies' debts to the republican budget and budget funds.

Utilisation levels have been showing improvements this year at the Tomsk Petrochemical Combine as the policies of the external management start to take effect. Being announced bankrupt may prove to represent an important watershed for the company. One of the initial goals of the new management was to address the raw material situation. The main raw materials purchased by Tomsk Petrochemical Combine include natural gas, naphtha, synthetic rubber, stearate, and titanium dioxide. The flow of these raw materials has increased to the complex, a major reason why methanol, LDPE and polypropylene output levels seem to be higher this year than in 1998. The problem of logistics is still a major restraint on the company's development, i.e., moving methanol to export markets is mostly impractical, and thus there is a recognised need to become more involved in higher added value products.

By contrast, Nizhnekamskneftekhim enjoys an advantage in its geographical location. Less than 10 miles away from the company's industrial zone there is a dry cargo river terminal, with access to waterways that are open for navigation from May through November. Liquids are mainly transported by rail, with many of the railway tank wagons travelling to Kotka in Finland, where there are storage tanks for the transhipment of products such as propylene oxide.

As a company Nizhnekamskneftekhim has benefited from its joint ventures, in particular Petrokam, a joint venture between the Tatarstan Republic and Germany, producing ethylene glycol. Antifreeze is also produced through a joint venture with a US company, and US assistance is helping the construction of hydrocleansing installations. Other joint ventures, which are expected to grow in significance, include synthetic rubber production with Bayer and polyurethanes with BASF.

The use of surplus stocks of products by Nizhnekamskneftekhim such as styrene and butadiene as raw material inputs has facilitated the relatively low cost development of new product ranges. At the same time, technological processes are constantly being renewed and refined, much of the necessary research and development being done at the company's internal Science and Technology Centre.

The most important goal today for Nizhnekamskneftekhim taking place is to increase capacities through the introduction of new technologies, the deeper processing of raw materials and increasing automation in the technological process. Some of the modernisation currently being undertaken at Nizhnekamskneftekhim has been facilitated with foreign credit, but as a matter of policy the company is reluctant to take on too much debt.

In the polyolefin markets polyethylene prices are stabilising at slightly higher levels seen in the second quarter, in the range of 14,000-16,500 roubles per ton, depending on grades, delivery distances, etc. Polypropylene prices seem to have been climbing. Interpoint is offering polypropylene produced by



Ufaorgsintez at 17,000 roubles per ton. Further details: Interpoint, Tel +7 095 219 1155, 219 9220, Fax +7 095 283 8804, E-mail: p\_resin@orc.ru.

### **Chlorine**

Market prices for caustic soda in Russia are ranging 3,100-3,800 roubles per ton. Caustic soda production at Usolyekhimprom in the Irkutsk Oblast has fallen since last year due in part to the increase in transport costs, affecting long haul shipments, and in part to the difficulties in obtaining anodes for electrolyzers. The designed capacities to produce caustic soda with mercury and diaphragm methods are being used at about 46% and 32%, respectively. The problems of environmental pollution have become of prime importance to the company. This has had knock on effects in production of caustic soda, and also the shipments of chlorine to Sayanskkhimprom. In 1998, caustic production at Usolyekhimprom decreased by 30% against 1997.

The domestic Russian market for caustic soda is characterised principally by oversupply and high inventory, and as a result output in recent years has been in decline. Individual plant utilisation rates vary as some producers have the advantage of producing at lower cost, whilst others are closer to the end-use industries. Kaustik at Sterlitamak is the largest producer of caustic soda in Russia. Despite a decline in demand for caustic chlorine consumption by Kaustik remains high in order to feed the VCM/PVC complex. Consequently, Kaustik needs to continue the production of caustic soda and in process generally has accumulated surplus inventory of both liquid and molten product.

The main problem for Russian caustic soda producers is the cost of energy. In an effort to reduce costs Kaustik at Sterlitamak has introduced a microchip automatic system to regulate caustic soda production, which was installed by a company called Sanak. The system reduces the consumption of vapour by 6--6.5%, resulting in a reduction in the cost price of production for caustic soda by roughly 2-2.5%.

Khimprom at Ufa, the other caustic producer in Bashkortostan, obtains brine from the soda ash producer Soda at Sterlitamak. The chlorine produced is consumed principally by Khimprom for the production of chlorobenzene and chlorosulphonic acid. However, last year Khimprom's chlorine consumption decreased sharply following the stoppage of herbicide production. Khimprom's main consumers for caustic soda include the Ufa refineries and power plants, but there is strong competition from Kaustik at Sterlitamak. Khimprom has offered the product at prices matching Kaustik's product but this has reduced margins to rock bottom. However, consumers in Ufa seem to prefer taking caustic soda from Khimprom rather than Kaustik where greater transport expenses may be involved. Khimprom's efforts to reduce production costs have included a lower price for electric power by 15% granted by the government. In addition, Khimprom has worked out a project to reduce power consumption involving the purchase of steam turbines. These measures are expected to provide the enterprise with cheaper electric power by as much as 30--40%.

OAO "Kaustik" at Volgograd is also striving to improve the company's profitability, with a primary objective to reduce the consumption of energy. The goal is for the company to rent the Volgograd heat and electric power plant no. 3 (Volgograd TETs-3) and to be able to purchase it at a later date. At present, the control share block of the Volgogradenergo joint stock including Volgograd TETs-3 is state-owned. Working with modern highly efficient equipment, TETs-3 produces the cheapest electric power when compared with the other electric power plants.

In the Irkutsk Oblast, the main challenge facing Sayanskkhimprom is the lack of chlorine, with Usolyekhimprom having lower availability and conflicts having emerged with the other main supplier at Bratsk. Sayanskkhimprom has made investments into modernisation of the Bratsk chlorine plant, Bratskkompleksholding (BLPK). With a share of about pre-denominated 60 billion roubles in the plant's authorised capital and having paid for the electrolyzers, Sayanskkhimprom does have some influence over BLPK. The US Trade and Development Agency has provided partial funding of \$300,000 for a study on upgrading the caustic soda plant at Bratsk. Having run into disagreements with BLPK at least it means that Sayanskkhimprom no longer has to adhere to a verbal arrangement that it would not sell caustic soda to the Ust'-Il'msk wood technology complex. The Ust'-Il'msk complex is a competitor to BLPK in the cellulose market. By trying to avoid upsetting its former partner by not selling to its competitor, Sayanskkhimprom quite often maintained high inventories. The regional administration is attempting to overcome the conflict between the respective parties.

In the markets, Uralkhimprom is offering products produced by Soda at Sterlitamak with a 40% discount. Further details: Aleksey Khorkov, Uralkhimprom, Tel/Fax +7 3432 70 72 40, E-mail: chimcom@emts.ru. From July 1, perchloroethylene produced by Kaustik at Sterlitamak was being priced at 5,700 roubles per ton. Further details: T.E. Lugumanov, Marketing Dept, ZAO "Kaustik", Tel/Fax +7 3473 25 20 43, E-mail: kaust@str.bashnet.ru.

### **PVC**

Market prices for PVC in Russia stand between 13,000-14,500 roubles per ton. ZAO "Mikron" is offering PVC resins produced by Usolyekhimprom at a price of 13,200 roubles per ton, on a FCA

basis. Further details: ZAO "Mikron", Tel/Fax +7 39453 635 31, E-mail: mikron@mail.ru. ZAO "Neftekhimik-Oxo" is offering three or four wagons per month of PVC produced by Kaustik at Sterlitamak at a current price of 13,100 roubles, inclusive of VAT. Further details from Mr Andrey B Bikov, Head of Marketing, ZAO "Neftekhimik-Oxo", Tel +7 3422 908-920, 908-620, Fax +7 3422 908-116, 908-155, E-mail: main@oilchim.raid.ru.

Both statistical and anecdotal evidence indicate an upward movement in Russian PVC output since last year's crisis erupted. In the second half of 1998 159,300 tons were produced compared to 137,500 tons in the first half of the year. Expectations are that 300,000 tpa will be surpassed this year, depending on the feedstock situation. PVC output in Russia depends heavily on what happens at Sayanskkhimprom and the company encounters frequent feedstock problems for both ethylene and chlorine. Ethylene supply by pipeline from Angarsk has become extremely sporadic over the past couple of years, largely as a result of the problems facing Angarsknefteorgsintez in connection with the bankruptcy of its holding company SIDANKO. Also, Sayanskkhimprom has faced difficulties in paying on time which has affected ethylene deliveries.

Chlorine is supplied to Sayansk by Usolyekhhimprom, and also the Bratskkomplekskholding through business co-operation of Sayanskkhimprom with the local energy company Irkutskenergo. However, the latter occasionally stops deliveries which is causing Sayanskkhimprom to look for alternative sources of supply.

Sayanskkhimprom's internal production of chlorine is insufficient to meet the demands of PVC production. Consequently, with problems emerging in the Sayanskkhimprom-Bratskkomplekskholding (BLPK) links Sayanskkhimprom is negotiating with several foreign companies, although importing chlorine would increase the price of final product.

In the middle of last year, a new plant producing cable plastics was put into operation at Sayanskkhimprom. The aim of the new plant is to add value to some of the PVC produced. Distances from the Zima plant in the Irkutsk Oblast to the main markets are vast and thus transport costs can erode margins. Consumers of the new cable plastics include the Russian cable plants located in Shelekhov and Blagoveshchensk.

<b>CIS- currencies July 26th 1999</b>			
<b>Country</b>	<b>Currency</b>	<b>\$1=</b>	<b>EURO =</b>
Azerbaijan	Manat	3942	4183.84
Belarus	Rouble	315,000	327,963
Kazakhstan	Tenge	132.190	140.299
Russia	Rouble	24.247	25.7346
Ukraine	Hryvnia	3.9960	4.1438
Uzbekistan	Sum	570.00	591.574

The smaller PVC producer in the Irkutsk Oblast, OAO "Usolyekhhimprom" has been producing broadly in the range of 1,000-1,200 tons per month this year. Approximately 14% of the output has been exported to destinations such as China, Bulgaria, and Egypt. The company wants to expand exports to the markets in South East Asia, including Thailand and Singapore, and also South Korea. Usolyekhhimprom has recently installed imported equipment for packing PVC into

small packs. This has helped the company into a position where it can be more competitive in foreign markets.

Of the other Russian PVC producers, Kaustik at Sterlitamak continues to operate well. In 1998, VCM output was 75,382 tons (planned output was 101,200 tons), corresponding to 55.8% of the designed capacity. In 1998 the company achieved a stable monthly output of about 4,000 tons of PVC. However, dependent on VCM production, 7-8,000 tons of PVC per month could be achieved with the new capacity that has been installed. Kaustik at Sterlitamak not only produces VCM for captive use but it supplies Kaprolaktam at Dzerzhinsk and Kaustik at Volgograd. A considerable proportion of the PVC produced at Sterlitamak is exported, mainly into China, Bulgaria, and Slovakia.

The weak production position at Kaprolaktam at Dzerzhinsk in recent years has been heavily influenced by the lack of any one owner which can control the direction of the company. However, the appointment of an external management last August has started to take effect with Kaprolaktam increasing total chemical production by 15.7% in January-June 1999, year-on-year, from 350 million roubles to 404.97 million roubles. Producing, or buying VCM, has been the main problem due to the lack of funds. Consequently, the company currently produces only between 500 to 1,000 tons per month of PVC.

A growing consumer of PVC in Russia is OAO "Uralkhimplast" at Nizhniy Tagil in the Sverdlovsk. Last year, Uralkhimplast increased PVC processing by 270% against 1997, producing around 14,000 tons of products. The main problem is a lack of raw materials. The company's main products, plasticized materials for cables and shoes and PVC layers, are sold through the Uralkhimplast trade firm.

**Caprolactam** In recent months, Chinese domestic caprolactam producers have been encountering pressure from Russian competition. Current demand for caprolactam in China is estimated at 300,000 tpa, with Russia providing approximately 20% of supplies in the first half of this year.

Caprolactam shipments sent through the Chinese-Russian Manzhouli border enjoy half tariff exemption. An alternative route is through the Nanjing port through where 8,026 tons of Russian caprolactam were transported in January and February this year. Russia is not the sole source of import pressure, but the major Chinese producer is requesting that the government tightens up the border trade arrangements in order to reduce Russian shipments.

**PTA** The Russian government may offer guarantees to attract investment of over \$200 million to complete construction of the Polief PTA/polyester plant at Blagoveshchensk in Bashkortostan. A decision on this issue should be reached in the near future. The Russian first Deputy Prime Minister Nikolai Aksyonenko held a meeting in Ufa in late June, where measures necessary to launch the plant in 2001 were discussed.

This follows announcements in March that the project would receive priority attention. Aksyonenko and the Bashkortostan President Murata Rakhimov signed a protocol based on the results of the meeting. The protocol requests the Russian Finance and Economy Ministries to come up with proposals to finance completion of project. The sale of a share packet in Polief this year should provide one source of financing. At the meeting it was noted that over \$500 million has already been invested in the project, and over 90% of this amount has been spent on equipment purchased in Japan.

The plant has a planned production capacity of 230,000 tpa of PTA, to provide feedstock for polyester fibres for light and textile industries and for the production of spandbond, which is used in high quality road construction. PTA is not currently produced in Russia. There appears to be a growing momentum on this project and the position now is that the Bashkortostan expects that the first stage of production will come on stream in 2001. However, this is dependent on the Russian government fulfilling its responsibilities set out in the signed protocol.

**Plastics** In the Dzerzhinsk region, Orgsteklo is in the process of planning to bring a new range of PMMA products for the automotive and lighting industries, in addition to flocculants, ether diamines and acrylic modifiers. These new products are seen as the main future of the company.

<b>OAO "Orgsteklo" Price List</b>	
<b>Q2 1999</b>	
<b>Product</b>	<b>Roubles/ton (before VAT)</b>
Acrylic resins	39,500-60,000
Acrylic emulsions	9,000-34,000
Butyl methacrylate	40,000
Methacrylic acid	22,300
PMMA	32,300-34,000
<b>Further details:</b>	
Marketing Dept, OAO "Orgsteklo", Dzerzhinsk 606000, Nizhniy Novgorod Region, Russia	
Tel +7 8313 27 70 77/27 74 96,	
Fax +7 8313 33 20 88	

The major barrier to the company's development is the lack of pace in the construction of the new acrylic acid plant at Dzerzhinsk, in which Orgsteklo is participating as a majority partner in the joint venture Akrilat. In mid-August last year, just prior to the forced devaluation and the default on loans Nichimen Corporation of Japan signed a letter of intent with the regional government to finalise the construction plans. The economic crisis has put the project back although it has not been postponed. The value of the investment project ranges from \$30-60 million. One of the requirements set by the Japanese company is a guarantee of capital return from the regional government.

Following the appointment of trust management after bankruptcy Zavod Metil in the Perm region was hoping to restart the production of urea and melamine based formaldehyde by the first quarter this year. The company intends to produce only formaldehyde at first and progress to paraformaldehyde in the third quarter. Resin production is expected to start in 2000.

<b>Belarussian Output (unit-kilo tons)</b>		
<b>Product</b>	<b>Q1 1999</b>	<b>Q1 1998</b>
Refined Oil	3,313	2,826
Motor Gasoline	419	410
Nitrogen Fertilisers	170	169
Phosphate Fertilisers	35	40
Potassium Fertilisers	933	893
Plastics and Resins	114.2	135.9
Fibres & Threads	49.1	63.4

In current markets OAO "Kamkabel" is offering a wide range of cable raw materials from its Moscow warehouse. Various forms of payment would be considered including cash, debts, sources of energy, veksels (promissory notes), and products. Products offered by Kamkabel include plasticizers (DOP), polyethylene, rubber, etc. Further details: OAO "Kamkabel", E-mail: mpkama@dol.ru.

MPM, located at Angarsk in the Irkutsk Oblast, has the capability of supplying locally produced chemicals. These include polyethylene films from 15,000-18,000 roubles per ton, polystyrene produced by Angarsknefteorgsintez at 15,000 roubles per ton, PVC produced by Sayanskkhimprom at 14,500 roubles per ton, and cable plasticizers also produced by Sayanskkhimprom at 18,000 roubles per ton. Further details: MPM, E-mail: ig\_green. Trading company AO Kaustik in St

Petersburg can offer maleic anhydride, epoxy resins, perchloroethylene, etc. Further details: Roman Kalaushin, AO Kaustik, Tel/Fax +7 812 303 9499, E-mail: raduga@peterlink.ru.

Traders SKS are offering from "SNOS" (OAO "Salavatnefteorgsintez") plasticizers DAF at 13,800 roubles per ton, normal butanol at 6,400 roubles per ton and isobutanol at 5,350 roubles per ton. Further details: Pavel Silantyev, OOO "SKS", Tel +7 347 902 2234, Fax +7 34763 13859, E-mail: pasha@salavat.bashnet.ru. Petrokhimproduct is offering products produced by Salavatnefteorgsintez including toluene, LDPE, polystyrene, ABS resins, normal butanol, isobutanol, DOP, and DAF. Further details: Nikolai V. Marchenko, Petrokhimproduct, Tel +7 812 248 22 80, Fax +7 812 542 29 55, E-mail: chemie@psp.spb.ru.

## **Ukraine**

In mid-July the Ukrainian government decided to delegate a controlling share package in Oriana to the Ivano-Frankovsk regional administration. The government decision includes a revoke of the earlier Cabinet of Ministers Resolution, which led to a company called Shelton taking a 50% stake plus one share in Oriana. In fact, Shelton was founded under dubious conditions with the implicit association of the former (now awaiting trial) Prime Minister Lazarenko. Shelton's involvement has been detrimental to Oriana's interests. A consortium of Western businessmen are still hoping to take control of the Kalush complex.

If Oriana can be revived there are several projects which could see progress. These include a revamp and upgrade of the olefin cracker, taking ethylene capacity from 250,000 to 350,000 tpa. In the derivatives' sector Oriana wants to construct a suspension PVC plant of 120,000 tpa, to add to the existing paste plant. Polypropylene was considered in 1994/1995 but the company was unable to secure the necessary finance. However, Oriana still maintains plans to construct an 80,000 tpa plant at Kalush which would provide a usage for the cracker produced propylene. All these projects will realistically only be implemented on a joint venture basis, or through the sale of shares.

## **Transcaucasus**

In late June the US Trade and Development Agency (TDA) announced that it would award \$900,000 in feasibility study assistance to Azerbaijan for two refinery and chemical projects. The official statement was that "the TDA is pleased to provide this assistance, which serves a dual purpose - helping the Azeris improve their refinery and chemical production processes and placing US companies on the ground floor of infrastructure development in the dynamic Caspian region."

A \$500,000 grant to the State Oil Company SOCAR of Azerbaijan will provide for a feasibility study to improve the refinement of jet and diesel fuels, and the recovery of their by-products at the Azerneftiyag production unit at Baku. At present, the Azerneftiyag refinery processes a highly acidic crude oil that requires caustic treatment of the kerosene and diesel streams in order to meet the quality specifications required by its customers. Most of the distillation units and treatment systems being used are outdated and in very poor condition. As one of the by-products of the caustic stream, sodium naphthenate, is usable after conversion into naphthenic acid, this study also aims to improve the chemical yield and operating efficiency of the recovery process.

In addition to US interest Japan's government has recently stated that it is ready to lend Azerbaijan \$160 million to modernise one of the Azerbaijan's main power stations. The credit is seen as part of a growing relationship between Japan and Azerbaijan. Last year the Japanese Export-Import Bank disbursed \$100 million to support modernisation at the Sumgait chemical complex.

A subsidiary of the UK company Bulvinas Chemicals opened a new household chemicals' plant in Yerevan in Armenia at the end of May.

## **Kazakhstan**

In the chemical markets the company "Stenli" is seeking a supplier of 2-EH in cisterns for delivery to Kazakhstan. Prices should include transport costs. Further details: Vladimir Malinka, Group "stenli", Tel/Fax +375 17 211 3471, E-mail: malina@stanley\_nsys.by.

Kazakh oil and gas condensate output totalled 6.8 million tons in the first quarter of 1999, representing 94.9% of the target of 7.2 million tons. In the period between January and March three Kazakh oil refineries processed 1.2 million tons of crude, down from 2.2 million tons a year ago. In the reported period, the output of liquefied gas reached 41,400 tons, up from 38,500 tons in the first quarter of 1998. In late July the Pavlodar Oil Refinery (POR) in northern Kazakhstan was reported to have resumed operations after standing idle for a month and a half due to the halt in supplies of crude. Traditionally, the refinery was dependent on crude delivered from West Siberia but these supplies were stopped due to high VAT charges. The restart of processing, however, has been facilitated by the delivery of 50,000 tons of crude from the Kumkol oil field, located in the south of Kazakhstan. The refinery processed 150,000 tonnes of crude in July,

in contrast to the first 5 months of 1999 where only 277,000 tons were produced, down from 611,000 tons in the same period of 1998.

Shortages of funds to buy plant protection agents and fertilisers continue to act as a major restraint on crop output in Kazakhstan. In 1998, 11 million hectares of land in Kazakhstan underwent chemical treatment against harmful insects, but only 5.9 million hectares were treated. Currently, an amount of 3.4 million Tenge is needed to conduct chemical treatment against locusts. Domestic output of fertilisers is underperforming due largely to financial operating problems. For instance, the employees of the South Kazakhstan Oblasts phosphorous plant, Phosphor JSC, started a hunger strike in May. The company was declared bankrupt and was unable to pay back wages.

Regarding current investment opportunities in Kazakhstan Kustanay Khimvolokno appears to be an interesting candidate for privatisation. The plant produces speciality fibres, for which there is little competition in the CIS. The equipment varies in age, but a significant part of it is modern and well maintained. The value of the fixed assets is estimated by the plant at \$123 million. A big advantage of the company is that the plant possesses a skilled and inexpensive workforce, and also that the plant reports no environmental problems. The main uncertainty is whether or not the plant is capable of manufacturing its products at prices competitive with foreign products? However, because the plant can be acquired for a modest amount, the resulting reduction in capital costs should help the cost of production. The existing liabilities of the plant valued at \$18.7 million, would also be need to be reduced prior to its privatisation.

The plant was built originally to produce chemical fibres primarily for military applications, although the fibres have multiple civilian uses. The technologies and production designs were made by a Russian research institute in Tver, and many of the designs are patented in the former Soviet Union. The machinery and equipment were also designed and manufactured in the Soviet Union. Most of the raw materials are manufactured in Russia.

The production facilities consist of a PVC fibre unit which started operating in 1978 as the first line of the plant. The manufacturing capacity of the line is 12,000 tpa. The quality of the produced fibre corresponds to that of "Rovil", manufactured by Rhone Poulenc. Another unit is a small polyacrylnitrile composite thread PAN production unit which supply's Lisakovsk and the "Carbon" plant in Rudnyi for manufacturing of a carbon fibre to be used in a production of the Soviet fleet of "Stealth" planes. However, the programme to manufacture the planes was cancelled and the plant currently has no affiliation with the military. The PAN thread can be used in a civilian carbon fibre production as well as in textile manufacturing for upholstery and tarpaulin fabrics, protective clothing, sewing thread and filtering materials. Other facilities include polyaramide fibre (Phenylon) and polyaramide composite thread, with an annual capacity of 800 tons started operating in 1984. The facility also produces a polyaramide adhesive used in synthetic paper production, plastics and filtering materials. As reported by the plant, the foreign analogue of the fibre is manufactured by Du Pont under a trade name of "Nomex".