

EAST EUROPE & C. I. S CHEMNET

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

Tel: 0181 669 5126 Fax 0181 669 5126: E-mail : andrew@andspar.demon.co.uk

Edited & Produced by Andrew Sparshott©

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CENTRAL EUROPE

Oil refining

LUKoil has stated that it is ready to buy 70.87% of shares in the Paramo refinery in the Czech Republic. However, the main competitor to LUKoil for Paramo will be Unipetrol and the IOC consisting of Agip, Conoco and Shell. Other interested parties could include TotalFina and Elf. Based at Pardubice, Paramo has a processing capacity of up to 1 million tpa of crude. In 1999, Paramo held shares of 10%, 51%, and 77% in the domestic diesel, light heating oils, and asphalt products' markets respectively. More than half of all oil deliveries to the Czech Republic come from LUKoil which has justified Russian interest in this refinery. The official tender for Paramo was opened at the end of January and the winner will be decided by the end of April.

The two main criteria for consideration will be the share offer placed by the bidder combined with the strength of the business plan for the refinery. A sum of around \$27 million has been suggested for the shares, but the investment required is estimated by Paramo's management to be much larger at \$77 million. LUKoil needs Paramo as a vehicle for processing oil produced in Russia, and selling gasoline and other oil products on the Czech market.

Two of Unipetrol's subsidiaries in the oil processing and retail gasoline sectors are indicating weak results for 1999. The refining division Ceska rafinerska posted a preliminary 1999 net profit of Kc 1.3 billion, down one-third with a turnover of Kc 31 billion. The gasoline outlet Benzina expects a 1999 loss of Kc 680 million, although this was Kc 375 million higher than in 1998.

Polish Chemical Output (unit kilo tons)

| Product | Jan-Nov 99 | Jan-Nov 98 |
|-----------------------|------------|------------|
| Plastics | 861.7 | 825.2 |
| PVC | 237.9 | 247.3 |
| LDPE | 118.5 | 156.3 |
| Caustic Soda | 305.0 | 333.2 |
| Pesticides | 25.1 | 24.7 |
| Lacquers | 283.8 | 286.9 |
| Detergents | 276.3 | 314.7 |
| Nitrogen Fertilisers | 1,109.5 | 1,278.2 |
| Phosphate Fertilisers | 511.0 | 586.1 |
| Synthetic Fibres | 76.0 | 84.9 |
| Synthetic Rubber | 88.5 | 87.6 |
| Total Oil Processed | 15,195.0 | 14,576.0 |

In Poland, Rafineria Gdanska SA reported a 1999 net profit of PLN 120 million, well above last year's earnings forecast of PLN 89 million. At present a shortlist of preferred bidders for the refinery is being drawn up by Nafta Polska. Privatisation of Rafineria Gdanska, likely to be carried out as a public offering of the company's shares, is planned for the second half of this year. The adviser, to be chosen by a special commission, will prepare the refinery's privatisation programme and help the treasury ministry with implementation.

Polski Koncern Naftowy (PKN) wants to cut costs by PLN 500 million by 2003, achieving a PLN 170 million cost reduction this year. PKN has also announced it

plans to increase its oil processing output from last year's level of 12 million tons to 12.8 million tons this year, and 13.2 million tons in 2001. The company plans to improve its efficiency through more effective oil processing and the elimination of non-profitable gasoline stations. However, PKN has made it known that it does not plan layoffs.

Olefins

The ethylene markets in early January appeared more relaxed than early December. Spot ethylene from the US, Mexico and Asia has been sold into West Europe and coastal ethylene is quoted at \$650-665/ton cfr. In West Europe, the propylene markets have been tighter due to a force majeure declaration by Atochem following the Carling outage. The West European propylene Q1 contract price was settled in mid-December up Euro29 taking the price up to Euro445/ton.

In late January MOL and TVK stated they had signed agreements for the delivery of gas oil and hydrogen in 2000 and propylene between 2000 and 2002. Under the agreements MOL will sell around 930,000 tons of feedstocks to TVK in 2000, worth around Ft 43 billion at current prices, and will buy back around 260,000 tons of by-products, worth around Ft 10 billion. MOL will deliver 180,000 tons of gas oil to TVK in 2000 and will buy around 23 million cubic metres of hydrogen from TVK. As part of the propylene agreement MOL will sell a total of 150,000 tons to TVK until 2002. This will represent an important part in supplying demand from TVK's propylene business unit, which is estimated now at 280,000 tpa taking into account the new 140,000 tpa polypropylene plant. The statement ran "the agreements were signed under correct market conditions, which took into consideration the interests of both bourse listed companies."

The issue of closer direct links between MOL and TVK was considered and rejected at the extraordinary TVK shareholders' meeting on January 27. MOL had requested three out of seven Board seats at TVK, in addition to two out of five seats on the TVK's Supervisory Board. MOL had also failed during earlier talks to achieve this representation. TVK said that it was willing to recommend MOL's participation on the Board, but this was subject to their agreement to a number of internationally accepted safeguards designed to protect the interests of TVK and its shareholders. However, these conditions were not accepted by MOL and the prospect of greater involvement between the two companies has dissipated for the time being. TVK is moving away from plastics and focusing on its petrochemical business, an area which MOL wants to expand. This raised concerns of a possible conflict of interest if MOL secured a place on the board and, as a competitor, had access to sensitive information.

The continuing hike in naphtha prices is putting pressure on olefin prices. In the second half of 1999 Chemopetrol was the Unipetrol subsidiary that was most affected by the sharp change in prices of input raw materials, directly linked with oil prices. Despite the prices of main petrochemical commodities starting to rise by third quarter in the first nine months Chemopetrol saw a total loss amounting to Kc 681.7 million. The increase in petrochemical prices towards the latter part of the year means that Chemopetrol expects the aggregate results for 1999 to show an improvement against the first nine months.

An improvement is also expected due to austerity cost-related measures adopted in the course of the third quarter. October showed a positive economic result following a six month downturn. Wages at Chemopetrol will increase this year on average by 3.6% to roughly Kc 20,000 per month. However, Chemopetrol has announced that it will lay off up to 700 employees this year due to the company's unstable financial conditions and high production costs. Chemopetrol is aiming for a pre-tax profit of Kc 935 million in 2000 after posting a 1999 loss of Kc 600 million, its first loss in several years.

A fire broke out on January 1 at TVK's complex at Tiszaújváros. Olefin production was affected slightly and the timing meant that the effects on the market were minimised. The fire brigade, with the help of TVK's crew, eliminated the fire caused by the spilt naphtha. The cracker restarted its production on January 2, and on January 3 ethylene production also started. By early January the cracker was operating at around 90% of capacity utilisation. The 3% ethylene shortfall caused by the fire could be made up during the year by increased production in the third and fourth quarters, or alternatively by imports. TVK expects no change in its sales and profit forecasts for 2000. Production at the polymer plants and customer services were not effected. Furthermore, the fire did not cause either personal injuries or environmental pollution. The investigation so far proved that the technical devices suffered only minor damages.

Olefin derivatives

The European polyethylene market has been affected by imports of Asian material, particularly in the film sector. The indications are though that this disruption will disappear as quickly as it came, as there are clear signs of an emerging recovery in Asian and Chinese demand. For polypropylene the expectation is that the market will remain stable and balanced in the first half of the year with the price trend continuing upwards. The second half of the year sees substantial new capacity additions with Appryl's new plant at Grangemouth, UK and DSM's plant at Gelsenkirchen, Germany adding 500,000 tpa of new capability for polypropylene. The Appryl line is due to start in Q2 but will not bring any significant tonnage to the market before the end of its summer break.

Growth last year in the European polypropylene market was put at 8% with the automotive, blow-moulding and caps and closures sectors performing strongly. Producers expect continued demand growth into 2000 as the forecasts are for a good year economically in the region. They remain optimistic that this growth will allow the absorption of new capacity and that there will be continued opportunity for exports into the Middle

East and Africa to optimise plant utilisation. Some producers express concern about ongoing feedstock availability and potential restrictions on output capability.

Foster Wheeler has won the tender to supply Chemopetrol at Litvinov with equipment for the new polypropylene unit worth Kc 1.6 billion. The equipment is to be operational in 2002. Linde has won the contract for the HDPE expansion at Litvinov.

Kaucuk a.s., at Kralupy nad Vltavou, showed a loss in the period January–September 1999 amounting to Kc 16.3 million. During the first five months of the year a profit amounting to Kc 88 million was made, but the company incurred operational losses after June. The main problem was declining gross margin. Due to rising prices of inputs and lagging prices of petrochemical products profits fell in the first three quarters. This was despite increasing volumes of sales in tons. In addition to market conditions the economic performance was negatively influenced by technical problems at the new “Styren III” unit at the beginning of the year.

As for liquidity, Kaucuk was solvent throughout the first nine months of 1999, both in the operational and financial and investment areas. The amount of investment reached Kc 265 million in the period January–September 1999. Apart from the company's own resources, financing has been provided mainly from a seven-year syndicated loan with the volume of short-term loans being minimal. By the year end a slight improvement of the market situation was being noted, which should help to increase gross margins for the company.

Company news In the period January-September output in the Czech chemical industry was recorded at 95.7% of the volumes achieved in the same period in 1998. The reasons for the downturn are attributed largely to the Czech economic recession, a lack of export market opportunities in the first part of 1999, and company restructuring. By contrast to chemicals, the rubber and plastics' sector saw an increase of 5% in the first nine months of 1999.

Czech company Agrofert Holding a.s. expects to report around Kc 28 billion in unconsolidated revenues for 1999, a 56% increase on 1998. This was partly fuelled by the Kc 600 million acquisition of Deza last year. Since then Deza has seen a turnaround with forecasts around Kc 100 million in profits for 1999. Overall, Agrofert predicts a pre-tax profit of Kc 700 million for 1999. In the next two to three years, Agrofert plans to borrow up to Kc 1.5 billion to be invested in future take-overs. The company has also stated that it wishes to seek further financing through venture capital, strategic alliances, long-term bond issues, and stock-exchange listings. Agrofert's existing chemical subsidiaries, including Lovochemie, Deza, and Precheza, are also planning large-scale investments of up to Kc 3.8 billion.

The Hungarian privatisation agency APV sold 113,549 shares in BorsodChem on January 20. The sale of the shares represented about 1.1% of BorsodChem's total share capital. Hungary raised Ft 1.32 billion from the auction. Demand was for more than five times the number of shares offered. Hungary started selling BorsodChem in February 1996 when it off-loaded a majority stake in the company.

Czech chemical company Bochemie a.s. at Bohumin, ended 1999 with a gross profit of Kc 43 million, up by Kc 8.5 million against 1998. In 1999, the company sales' revenues totalled Kc 561.8 million against Kc 554.1 million in 1998. Exports, which are mainly to the EU, Poland and Slovakia, accounted for around 40% of the company's sales' revenues. This year the company expects to reach a gross profit of Kc 47.6 million on sales' revenues of Kc 570.8 million. Bochemie is a medium sized chemical producer which is known for disinfectants, cleaning agents and fungicides. Other products from Bochemie include nickel cadmium battery masses and masses for descaling of steels. The Bochemie group consists of subsidiaries in Poland and Slovakia. Bochemie at Bohumin has a share capital of Kc 20.4 million and is the main part of the Bochemie Group.

Plastics TVK and Pannonplast Industries signed an agreement on January 20 concerning the acquisition of TVK's plastic processing division by Pannonplast. The transfer involves the entire plastic processing business of TVK, i.e. Pannonplast is to purchase the equity stakes of TVK's plastic processing subsidiaries in addition to the internal plastic processing units. As a result of the transaction TVK will completely withdraw from the field of plastic processing and intend to focus its efforts on its core areas, which is the development of petrochemicals. The parties intend to conclude the transaction during the first quarter of 2000.

The sale of these units would be something of a change in policy which in the past two years has been focused on developing polymer processing capacity. However, this strategy has not proved very profitable for TVK which has led to the decision to sell. It is suggested that divestment will make TVK a more attractive prospect for integration with MOL. From Pannonplast's perspective the purchase of the plastics' units of TVK would mean taking on the same profitability issues which had held back TVK's results. But

whether it not it will seen as a good purchase will depend on how much Pannonplast paid for the units. This will only be available when the final transaction is concluded in the first quarter of the year.

The expected turnover of TVK's plastic processing business was Ft 44 billion in 1999 of which about 56% was sold in export markets. The number of employees is in the range of 1,950. The independent plastic processing subsidiaries and TVK's ownership, include Unterland AG, Austria (74%), Plastico S.A., Romania (90.9%), Tiszatextil Ltd., Hungary (50%), and Pohárgyártó Ltd, Hungary (96.2%). The internal plastic processing units include Biafol, Helioplast and Formplast. Two of the concerns, the Austrian subsidiary Unterland AG and the internal business unit Biafol, are the major revenue contributors. The large scale development of Biafol was only completed recently and thus is a modern unit.

The range of products included in the above divisions will complement and enhance the business activity of Pannonplast as the leading plastics converter in Hungary. Pannonplast will integrate the new units into the existing group and will fully explore the potential opportunities between the different units. According to preliminary analyses the acquisition may have beneficial effects on the financial ratios of the company in the short run, and it will not impact the company's going concerns and previously launched projects. Pannonplast's strategic goal is to expand the product range in its core business partly through acquisitions, partly through green field investments. It is also a strategic goal to establish production facilities in the neighbouring countries. A major benefit of the current transaction is that Pannonplast takes over product lines that are well established in the market.

Pannonplast Group's expected consolidated turnover in 1999 was approximately Euro84 million (Ft 21 billion) of which exports exceeded 45%. The financing structure of the transaction on Pannonplast's part is currently being finalised and it is the intention of the parties to conclude the transaction during the first quarter of 2000.

Hungarian plastics' company Karsai Holding Rt has acquired the majority ownership in plastics' company Kunplast Rt with Ft 250 million capital increase and share purchases. Karsai is a group of 10 companies that wants to increase its contractor role in the auto industry. Kunplast Rt has been a Suzuki subcontractor and it also exports BMW and Opel components to the German market.

Intermediates/End-use industries

A blast occurred in the gunpowder drying unit of Nitrokemia at Fuzfogyartelep on January 15. One person was killed. The detonation destroyed two walls of the building. The blast is estimated to have caused damages of Ft 10-20 million. Nitrokemia is now planning to construct a new gunpowder dryer. Damages have been cleared away from the site, but specialists have not yet determined the cause of the explosion. A standby device has allowed gunpowder production to continue. Nitrokemia is currently trying to find the most appropriate new technology for gunpowder drying.

The Japanese tyre manufacturer Bridgestone has started tyre production at a new plant in Poznan. The plant, which is 83.3% owned by Bridgestone/Firestone Poland, with the remaining stake belonging to Stomil Poznan SA, will supply tyres mainly for the European market. At the end of this year, the plant will manufacture 6,000 tyres per day and at the end of 2001 it will reach the target figure of 10,000 tyres per day. The company's capital totals \$103 million.

In the pharmaceutical sector Slovakofarma in Slovakia may need to merge or be merged with another company to overcome the restrictions on r & d, and further expansion. Although Slovakofarma is one of the top ten pharmaceutical producers in central Europe, the share of new products on the company's overall production is only 15-20%. Most of the medicine Slovakofarma produces are generic drugs, which are products that were developed by other companies more than 15 years ago and for which Slovakofarma must pay a license fee to produce.

To produce significant amounts of its own products, the company needs to invest far more money into research and development. The majority shareholder of Slovakofarma, which was established in 1941, is S. L. Pharma Holding GmbH Wien, which has owned a 61% stake since Slovakofarma was privatised in 1994. The basic capital of the company is Sk 1.75 billion. Despite encouraging company figures, Slovakofarma is in danger of falling behind the competition. The current trend among pharmaceutical companies in central Europe is towards merger, as shown by the Croatian pharmaceutical company Pliva's 1999 purchase of Polfa Krakow and Lachema Brno.

Restructuring

Spolchemie, at Usti nad Labem in the north of the Czech Republic, expects total revenues of Kc 2.755 billion for 1999, which is its second weakest performance in the last 10 years. These results are due in part to tight margins in the products areas produced by Spolchemie, but also are reflective of the strong need for restructuring in the company. Efforts to implement cost cutting measures were first announced in the middle of last year with the aim of 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. Spolchemie is keen to sell subsidiaries which are not considered part of the core product areas.

Central Europe-currencies Jan 24th 2000

| Country | Currency | \$1= | EURO = |
|----------------|----------|---------|---------|
| Czech Republic | Koruna | 35.7400 | 35.9915 |
| Hungary | Forint | 253.225 | 255.075 |
| Poland | Zloty | 4.0825 | 4.7100 |
| Slovakia | Koruna | 42.0215 | 42.3216 |

In terms of raw material supply and product marketing the company plans to change the organisation of purchase and sales, and to improve the efficiency of these departments based upon available market information, etc. These goals will be linked to a reduction of product assortment with the goal of

ceasing inefficient or unpromising products and freeing up capacity for increasing the production and sales of select products. The broad plan is to focus on the marketing and sales, including technical support, to promote these products in the market. There may be the possibility of increasing the production capacity for intermediates used in the manufacture of epoxy resins.

A medium range goal is to increase market share on the European market for epoxy resins from 3% at present to 6% by 2005. This would require an increase in production capacity of low molecular epoxy resins to between 15,000-20,000 tpa. This expansion would have to use modern technologies. Spolchemie places considerable importance on developing long-term co-operation with selected strategic partners and clients.

SOUTH EAST EUROPE

Oil refining

The intentions of INA to merge with MOL are expected to be revealed in 2000. The programme of the newly elected government in Croatia appears to be based on reducing potential political risks concerning a merger or privatisation. Part of this process includes the appointment of a new management for INA. There is an argument that the opposition coalition that won the general elections in Croatia in January is planning to start transforming the country into an investment friendly country. In particular, the new government would open doors for Hungarian companies which hitherto failed to penetrate the Croatian market, such as BorsodChem that failed in its effort last year to buy Adriavinil. The aim now is to implement a turnaround in economic and development policy, opening Croatia to foreign investment and trying to elevate itself into the group of the first countries ready to join the European Union.

INA is aiming to introduce a new IGCC system to the Sisak and Rijeka refineries which will facilitate the co-generation of electricity along with gasification. Although the IGCC system is seen as the most expensive way of revamping the refineries it is believed to represent the most profitable. The estimated 350 MW of electricity which would be produced in the refining process is more than the refineries would need for their own consumption. The IGCC system has compared well against other alternatives.

The Romanian State Ownership Fund (SOF) started on January 19 taking offers for the designation of the investor and administrator of the RAFO refinery. Recently the SOF specified that there were three companies interested in RAFO. The race was reopened on December 20, when SOF announced that RAFO was one of the 5 big refineries in Romania and one of the most productive. To support this goal, SOF used the conclusions of five different companies including UOP, Petrodesign, IPIP, ICERP and Bechtel.

South East Europe-currencies Jan 24th 2000

| Country | Currency | \$1= | EURO = |
|------------|-----------|---------|---------|
| Bulgaria | Lev | 1.8578 | 1.9513 |
| Croatia | Kunar | 7.6723 | 7.7256 |
| Macedonia | Dinar | 58.8540 | 60.2660 |
| Romania | Lei | 18382.5 | 18438.1 |
| Slovenia | Tolar | 196.540 | 198.920 |
| Yugoslavia | New Dinar | 11.4018 | 11.4819 |

In order to make the offer more attractive, the SOF highlighted the strategic position of RAFO in the eastern part of Romania, the relatively stabile market in the Moldava Republic, and possibilities of expansion in Ukraine. RAFO is also connected with the pipeline system (Oil Terminal Constanta-Onesti with a length of 470 km) for the transportation of the imported oil.

Synthetic fibres

According to the Romanian media the Romanian Ministry of Finance has succeeded in agreeing terms for the sale of 50.987% of the share capital in the caprolactam and fibre producer Fibrex at Savinesti. The Italian company Radici has taken a majority stake in Fibrex at a price of 33,000 lei per share, and 130 billion lei for the whole share stock. This sum covers all the Fibrex claims at the state budget, which amount to approximately 115 billion lei. The employees, although knowing that the company would have been liquidated if was not privatised, are worried about the dismissal of 2,000 people in the next 2 years.

Before the conclusion of the transaction Radici signed a protocol with the Fibrex union. In this protocol, it was specified that in the period 2000-2002 the number of the employees would be reduced from 3,600 to 1,500. This was viewed as being necessary as it is the company's only chance of survival. In March, the programme for restructuring will be decided with Radici.

At least for 2000, Fibrex is included in the RICOP program that involves granting of compensatory payments. The State Ownership Fund (SOF) has tried several times since 1998 to privatise Fibrex, the last attempt being on February 22 last year. The only bidder was Radici, which at the time considered the price too high.

In Bulgaria, a new privatisation process has been initiated for the rubber and fibre producer Vidachim at Vidin, with aims to sell the company in self contained parts. The Bulgarian Ministry of Industry holds 92% in Vidachim. As the company has been in liquidation the Ministry is being forced to sell its stake, but the main stumbling block is the need to re-evaluate the production assets. Vidachim's main operating problem is the dependency on imported raw materials.

FDI An Italian led consortium, involving French interest, stated in January that it planned to open a trading centre near Belgrade and resume business links with Serbia in a challenge to international sanctions. The industrial glue producing arm of Elf Aquitaine recently visited the Grmec chemical plant in Serbia to discuss production of industrial glues for wood processing industries. Another company A.T.B visited the Pancevo oil refinery, which was heavily destroyed in Nato's three month bombing last year. Talks between the companies will resume soon in Italy.

Bosnian state owned companies have signed agreements worth an estimated \$180 million with Western partners in late January, including the reconstruction of a soda ash plant. The company Debis has stated that it intends to modernise a soda ash plant at Lukavac in Bosnia for around Euro10 million. The financing of this deal would take place via the long term purchase of soda ash.

Pharmaceuticals The Bulgarian Privatisation Agency cancelled the sale of 67% in the leading domestic pharmaceutical manufacturer Sopharma to the Irish company Nova Technology, which failed to pay 30% of the negotiated price of \$32 million. As in previous cases of failed privatisation procedures there are arguments put forward by both sides why the transaction has fallen through. For Sopharma this the third time that a privatisation process has failed. From a market perspective the loss of Russian sales has created problems for Sopharma, with sales to West and Central Europe too small to make up the difference. Nova Technology has also expressed interest in another Bulgarian pharmaceutical manufacturer, Biovet of Peshtera.

COMMONWEALTH OF INDEPENDENT STATES

Russia

In 1999 industrial production in Russia began to climb out of a decade of depression, posting a post-Soviet era record 8.1% growth. The output hike was fuelled mainly by the August 1998 rouble devaluation which priced expensive imports out of the market and lowered costs for domestic producers. Production now stands about 2.5% higher than 1997 levels and is back on par with 1995.

However, economists have warned that the industrial output hike is based on weak economic foundations and that in some sectors growth has already begun to weaken. A common argument propounded is that strong growth in the economy can only be sustained is through massive restructuring of large companies. In most cases large companies are heavily overstaffed and cannot therefore achieve the type of efficiencies seen elsewhere.

Russia's oil output increased by 3% in 1999 against 1998, reaching a total of 295 million tons. In the period January-September 1999 102 million tons of crude were exported yielding around \$9 billion and representing an 11.5% increase against 1998. This was due to the rise in average dollar prices per ton from \$79 to \$88.5. However, these prices include subsidised numbers to the CIS countries which on average only paid \$55.8 per ton in the period January-September 1999 against \$94.1 for the non-CIS countries.

The first half of 2000 is expected to see a consolidation of the production trends seen in chemical output in 1999, although the percentage year on year increases are not expected to be quite as high. On the basis of the products listed in the table on page 8 Russian output increased by 21% in the first three quarters. These trends continued into the fourth quarter. For the year thermoplastic production totalled 1.399 million tons, up 30.2% on 1998.

The overall situation in the petrochemical sector was boosted by a strong recovery at several production plants, such as Stavropol and Angarsk. For some of the smaller tonnage product groups such as tyres, synthetic dyestuffs and paint materials, output tended to improve throughout the four quarters of 1999 and there is still greater room for increases. However, in some of the lower priced bulk commodities which are dependent on export markets, for example xylenes, declines have been recorded in the past year. In some of the end use industries synthetic dyestuffs saw a 10.8% increase in output in 1999, and paint raw materials 8%.

A Russian Central Bank plan to force exporters to convert 100% of their hard currency earnings to roubles will not be implemented for at least six months, according to the government. Russia's exports totalled more than \$72 billion last year, with exporters accumulating some \$15 billion in their accounts. At the same time, it is believed that Russia's major oil companies spend up to \$1 billion a year on purchasing equipment and chemicals. The current 75% mandatory figure, introduced in 1998, was intended to allow exporters to keep the remaining 25% of hard currency to purchase equipment for production. The oil processing companies spend as much as 35% to 40% of their export earnings on importing sophisticated chemicals needed for gasoline production. Without these chemicals, Russia's refineries would have produced predominantly diesel fuel and "black oil", neither of which is not nearly as profitable for export.

There is a view that if exporters are obliged to first sell all their hard currency earnings, then pay taxes on the rouble profit, and then buy the hard currency back from the Central Bank, it may have the opposite effect to that intended. It is argued that the increase in 1998 of the mandatory sale of hard currency from 50% to 75% tended to stimulate capital flight rather than retain capital. Market insiders and analysts tend to agree that the adoption of the mandatory sale of 100% of foreign currency, if not supported by other moves (taxation, investment, export and import regulations and guarantees), would not achieve the desired result of boosting hard currency reserves.

Oil refining Oil refining in Russia in 1999 is estimated to have reached 170 million tons according to the Russian Ministry of Fuel and Energy, with plans for 182 million tons to be refined in 2000. Fourth quarter refining in 1999 is estimated to have reached 45.4 million tons, representing an increase of 4.1 million tpa compared to the fourth quarter in 1998.

Oil production by LUKoil's subsidiaries and affiliates (excluding the annual output of the group of companies of KomiTEK) amounted to 65.3 million tons and exceeded 70 million tons (including KomiTEK). The company's share in the total oil production of Russia totalled 24%. Refining at LUKoil's refineries in Russia (including the Ukhta refinery) amounted to 20.2 million tons. LUKoil's share in the total refining volume in Russia was 12%. In 2000 refining throughput at the company's refineries in Russia may reach 23.3 million tons.

Under the strategic development plan, in 1999 LUKoil acquired interests in the Neftochim petrochemical plant in Bulgaria and the Odessa refinery in the Ukraine. This allowed to significantly increase LUKoil's refining throughput, refined products output and refined products marketing on the domestic and international market. LUKoil's refineries outside of Russia (Petrotel, Neftochim and Odessa) could refine up to 14 million tons of exported oil in 2000.

In 1999 LUKoil continued to expand the petrochemical sector. Processing of pyrolysis feed stock by Stavrolen (formerly OAO "Stavropolpolimer") rose 4.3 fold and exceeded 700,000 tons. while the range of petrochemicals produced by the plant expanded. After a standstill in November 1999, main production capacities of OOO "Saratovnefteorgsintez", another petrochemical plant acquired by LUKoil in 1999, were launched.

Petrochemicals Ethylene in Russia witnessed a strong production recovery in 1999, fuelled by a recovery in demand for derivatives. Ethylene output reached 1.63 million tons for the whole twelve months compared to 1.165 million tons in 1998. In the first ten months of 1999 Russia produced 1.317 million tons of ethylene measured against 0.940 million tons in the same period in 1998. The higher ethylene production levels in 1999 were due mostly to improved conditions at individual plants rather than across the board rises. For example, noticeable improvements were recorded at Angarsknefteorgsintez, Salavatnefteorgsintez and Stavropolpolimer due to changes in management and ownership.

| Russian Propylene Producer Trends | |
|--|---|
| <i>Producer</i> | <u>Q1-Q3 99 Production</u> <u>as % of Q1-Q3 98</u> |
| AO "Nizhnekamskneftekhim" | 121.3 |
| AO "Angarsknefteorgsintez" | 177.8 |
| AO "Ufaorgsintez" | 126.2 |
| AO "Salavatnefteorgsintez" | 124.5 |
| AO "Moscow NPZ" | 125.7 |
| Other | 213.6 |
| Total | 143.6 |

Angarsknefteorgsintez benefited from the withdrawal of the now bankrupt oil company SIDANKO which was previously its mother company; Salavatnefteorgsintez has benefited from Gazprom's involvement which has now been transferred to SIBUR; and LUKoil's ownership of Stavrolen (formerly OAO "Stavropolpolimer") resulted in a sharp increase in naphtha processing leading to an expansion in the range of petrochemicals produced by the

complex. Polyethylene production more than doubled at Budyennovsk in the first nine months. For Salavatnefteorgsintez the transfer in trust management from Gazprom to SIBUR is aimed at not only increasing the throughput of raw materials, but also investment in the areas as derivatives such as styrene and polyethylene.

| Russian Chemical Production 1999 (unit-kilo tons) | | |
|--|-------------------|-------------------|
| <i>Product</i> | <i>Jan-Dec 99</i> | <i>Jan-Dec 98</i> |
| Methanol | 1,442.0 | 1,179.1 |
| Ethylene | 1,630.0 | 1,165.1 |
| Benzene | 736.0 | 546.8 |
| Phenol | 127.0 | 104.4 |
| Polyethylene | 803.0 | 594.4 |
| Polypropylene | 199.0 | 148.0 |
| PVC | 419.0 | 296.3 |
| Plasticizers | 78.3 | 50.0 |
| <i>Product</i> | <i>Jan-Sep 99</i> | <i>Jan-Sep 98</i> |
| Ammonia | 6,846.2 | 5,867.7 |
| Caustic Soda | 743.4 | 616.3 |
| Soda Ash | 1,376.0 | 1,091.3 |
| Methanol | 993.5 | 825.1 |
| Acetic Acid | 80.3 | 28.1 |
| Ethylene | 1,181.2 | 836.4 |
| Propylene | 548.3 | 381.8 |
| Benzene | 527.2 | 394.9 |
| Orthoxylene | 146.9 | 161.3 |
| Paraxylene | 116.7 | 135.9 |
| Styrene | 169.0 | 121.1 |
| Phenol | 92.1 | 76.5 |
| Acetone | 56.2 | 48.7 |
| Phthalic Anhy | 48.1 | 65.5 |
| Butadiene | 165.2 | 161.3 |
| Isoprene | 176.3 | 169.8 |
| Syn Rubber | 529.8 | 454.8 |
| Polyethylene | 593.4 | 449.4 |
| Polypropylene | 150.0 | 102.5 |
| Polystyrene | 47.0 | 24.7 |
| PVC | 299.2 | 209.7 |
| Caprolactam | 147.1 | 101.9 |
| Aniline | 27.0 | 22.9 |
| Plasticizers | 47.0 | 44.8 |
| Carbon Black | 253.5 | 222.0 |
| Total (kilo tons) | 15,360.6 | 12,614.6 |

it can provide gas for the complex.

The issue has become complicated and it may even be that the acting president Putin is asked for his opinion. What is clear is that another 20% of shares in Tomsk Petrochemical Combine is owned already by YUKOS. It is felt that if YUKOS joins forces with Vostokgazprom that this could represent the controlling voice in Tomsk Petrochemical Combine. Aliyans has already started putting in feedstocks to the plant for polyethylene production, but whether this will guarantee future ownership remains in question.

Polyolefins

Polyethylene output in Russia totalled 803,000 tons in 1999, compared to 594,400 tons in 1998. This continued the recovery trend from the first half of the year when 409,000 tons were produced. The second half of the year was where the biggest difference was noted, with the last few months of 1998 seeing a notable downturn in shipments following the economic crisis. It should be noted that export activity was higher in 1999 due to better market conditions and improved cost structures following devaluation. For example, Russian exports to China in the period January-September increased to 97,171 tons in 1999 compared to 30,054 tons in 1998. Hence, not all of the higher production levels can be accounted for by higher domestic consumption. Polymer films saw probably the largest increase of 35%, reaching levels of 132,000 tons in 1999, but some of the other product areas saw more less dramatic increases than recorded in the production of polymers.

OAO "Kazanorgsintez" was the major player in the Russian polyethylene market in 1999, providing about 62.5% of the total market. The company increased output by 28% over 1998. Due to new demands for polyethylene, in particular for pipes in usage for gas pipelines, Kazanorgsintez is investing around \$65 million in a major upgrade of the 200,000 tpa HDPE unit which was installed originally in 1983 by John Brown. The plan is to increase capacity to 380,000 tpa. In June last year Japan Steel Works placed a \$10 million tender with Kazanorgsintez for the supply of a granulating unit. The second and most costly part of the project, namely the polymerisation unit, is being competed for by Linde, Kvaerner and Toyo Engineering. At the same time this project is being assessed Kazanorgsintez is aiming to upgrade its ethylene facilities, for which it will need to invest around \$40 million.

The petrochemical companies that have been more successful during the 1990s saw only modest improvements in the first three quarters of 1999. This group included Nizhnekamskneftekhim, Kazanorgsintez, and Ufaorgsintez. For propylene supply, aside a significant percentage improvement at the refineries and Angarsknefteorgsintez, most producers saw more consistent rises in output levels by more than 20%. Nizhnekamskneftekhim suffered a fire from a pipeline on December 16 which caused considerable damage. No other information is available.

Following the creation in December of OAO "SIBUR-Neftekhim" the management of the new company has stated that it wishes invest in the modernisation of the Kstovo petrochemical facilities with the aim of increasing utilisation levels. The complex is not really able to operate more than 50% of capacity due to a number of serious technical problems. The management is in the throes of drawing up a programme for investment which it will then forward to Gazprom for assessment. Thus, it could be a while before any decisions are made. SIBUR-Neftekhim has already indicated that it would be prepared to take some form of ownership in other chemical companies in the Dzerzhinsk region, including Korund, Orgsteklo and Zarya.

A confusing battle for control at Tomsk Petrochemical Combine is currently taking place with several groups involved. The financial industrial group Aliyans has a degree of influence having agreed to buy an 18% stake in the complex from another stock-holder Vanguard. However, on visiting the complex Aliyans discovered shares had been purchased by Vostokgazprom directly from Tomsk Petrochemical Combine, giving this company the right to buy a controlling stake later on. It seems that Vostokgazprom's involvement is preferred over Aliyans as

| Russian Polyethylene Production (unit-kilo tons) | | |
|---|-------------------|-------------------|
| <i>Producer</i> | <i>Jan-Sep 99</i> | <i>Jan-Sep 98</i> |
| AO "Kazanorgsintez" | 251.2 | 247.5 |
| AO "Ufaorgsintez" | 70.1 | 69.4 |
| AO "Stavropolpolimer" | 156.3 | 62.7 |
| Other | 115.8 | 69.8 |
| Total | 593.4 | 449.4 |

The production of HDPE at Tomsk Petrochemical Combine started on January 24 under the management of OAO "Gruppa Aliyans". Production has been facilitated by naphtha supplies arriving on January 20 for ethylene production. On January 12, Aliyans received a managing packet of shares in Tomsk Petrochemical Combine and claims to have

started a programme of "restructuring". Aliyans has reached an agreement with SIBUR for the supply of naphtha to Tomsk. In March this year Tomsk Petrochemical Combine will introduce a terminal for the supply of 30,000 tons per month of light hydrocarbon fractions.

OAO "Gruppa Aliyans" states that it has put in 13 million roubles into Tomsk Petrochemical Combine for the clearing of debts and payment of outstanding wages, and 16 million roubles for the payment of wages in January. OAO "Gruppa Aliyans" was formed in April 1998, specialising in anti-crisis management in ailing Russian companies.

No significant changes were noted in Russian polyolefin prices in January. OOO "Profinvest-99", formerly known as Rizalit, is still offering LDPE at between 23,500-24,500 roubles per ton, and HDPE between 24,200-25,000 roubles per ton. Further details: Aleksey Mingunov, OOO "Profinvest-99", Tel +7 095 217 6232, Fax +7 095 217 4137, E-mail: rizalit99@mail.ru. ZAO "Khimprom" in the Irkutsk Oblast is offering HDPE in regular supplies from the Angarsk Polymer Plant. Further details: Oleg Birulin, ZAO "Khimprom", Tel/Fax + 7 3952 30 80 61, E-mail: boleg@chemprom.ru.

Econedra states that it can provide regular sources of supply of propylene and polymers. Prices being offered from February are 7,800 roubles per ton for propylene, polystyrene at 19,000 roubles per ton and HDPE at 23,200 roubles per ton. For further details: Andrey Semdyaniki, OOO "Econedra", Tel +7 3951 52 80 89, Fax +7 3951 52 80 89, E-mail: econedra@irmail.ru.

Olefin derivatives SIBUR's de facto take-over of managerial control at Salavatnefteorgsintez is aimed at focusing on reviving old projects to increase polyethylene capacity from 41,000 tpa to 120,000 tpa, and to implement the plan to construct a 200,000 tpa styrene plant. This project involves the construction of a 230,000 tpa plant for ethylbenzene and 200,000 tpa plant for styrene monomer. The finance to build the project, by Lurgi, was secured from the Lower Saxony government, as part of a German-Bashkortostan co-operation agreement concluded in 1995.

The project has been stalled for 'one reason and another' over the past two years and it now it would appear that there are different views as to why the project has broken down. Salavatnefteorgsintez is a major producer of polystyrene and ABS plastics in Russia. Hypothetically, the new styrene plant would provide enough feedstocks for captive polystyrene and ABS with a surplus for sale in the merchant domestic or export markets.

In the polystyrene sector output has started to increase at the Omskhhimprom plant in line with co-operation with Nizhnekamskneftekhim. In September TatSib (Tatarian-Siberian Petrochemical Company) was formed between Nizhnekamskneftekhim and Omskhhimprom to create a new company to produce polystyrene. Omskhhimprom is Russia's largest producer of impact-resistant polystyrene with a capacity of 92,500 tpa, but has not operated anywhere full capacity for some time due to a lack of styrene monomer. Since the formation of TatSib styrene monomer supplies have been delivered from Nizhnekamsk to Omskhhimprom, enabling higher rates of utilisation. Output was expected to reach 4,500 tons per month by the start of this year.

Propylene derivatives MPM, located at Angarsk in the Irkutsk Oblast, has the capability of supplying locally produced chemicals. These include HDPE from Angarsk at 22,000 roubles per ton, polyethylene films from 24,000-26,000 roubles per ton, polystyrene produced by Angarsknefteorgsintez at 18,100 roubles per ton, PVC produced by Sayanskhhimprom at 18,500 roubles per ton. Further details: Igor Chizhkov, MPM, Tel +7 3951 532785/538452, E-mail: ig_green@angarsk.ru.

SKS is offering DOP from Salavatnefteorgsintez at 20,000 roubles per ton in quantities of 300-400 tons per month. Further details: Pavel Silyantev, OOO "SKS", Tel +7 34763 37811, E-mail: sp@bashnet.ru. Uralkhimplast is offering DOP from its Moscow warehouse at 24,000 roubles per ton, inclusive of VAT. In cisterns of 38 tons DOP is offered at 23,300 roubles per ton, inclusive of VAT. Further details: Aleksander Agafonov, Tel +7 3435 23 54 81, 23 59 80, Fax +7 3435 32 32 22, E-mail: 4oxo@write.me.com.

PVC/Chlorine PVC production in Russia in 1999 reached 419,000 tons against 296,000 tons in 1998, a sharp increase resulting from higher domestic consumption and increased exports.

Although this is the largest output level for more than seven years, it is still below the levels that were being achieved in the 1980s when the USSR was intact. In 1999 OAO "Usolyekhimprom" achieved an increase in production against 1999 of calcium carbide by 18%, PVC by 17%, and epihydrochlorin by 33%. Caustic soda was the only product that saw a decrease in 1999 and this resulted from the closure of the mercury electrolysis unit in the fourth quarter of 1998. Conversely, the diaphragm electrolysis unit has undergone significant reconstruction which allowed 27% more production in 1999 and enabled the plant to operate more profitably. Usolyekhimprom has agreed to pay considerable sums to the local authorities in the Irkutsk Oblast for cleaning up the damage caused by pollution from the old mercury plant.

| Russian PVC Production (unit-kilo tons) | | |
|--|-------------------|-------------------|
| <i>Producer</i> | <i>Jan-Sep 99</i> | <i>Jan-Sep 98</i> |
| AO "Plastkard" | 47.6 | 46.5 |
| AO "Kapolaktam" | 19.8 | 13.2 |
| AO "Kaustik" | 79.7 | 41.9 |
| AO "Usolyekhimprom" | 15.4 | 13.0 |
| AO "Sayanskkhimprom" | 106.5 | 80.3 |
| Other | 30.2 | 14.8 |
| Total | 299.2 | 209.7 |

AO "Khimprom" in the Irkutsk Oblast is offering trichoroethylene in regular supplies from Usolyekhimprom, with discount prices offered. Further details: Ivan Shevtsov, ZAO "Khimprom", Tel/Fax + 7 3952 53 53 00, E-mail: ivan@chemprom.ru.

VostSibProm is offering PVC at 17,950 roubles per ton, inclusive of VAT. Polypropylene is also available at 22,500 roubles per ton, inclusive of

VAT. Further details: Semen Kiselev, VostSibProm, Tel +7 3951 561798, Fax +7 3951 561798, E-mail: vostsibprom@irmail.ru. ZAO "Kaustik" at Sterlitamak is offering PVC at 15,000-16,400 roubles per ton, prior to VAT. Further details from Mr T E Lugumanov, Head of Marketing Department, ZAO "Kaustik", Tel/Fax +7 3473 25 20 43. E-mail: kaust@str.bashnet.ru. Other products from Kaustik include plastic cables, ranging in prices from 19,000-31,200 roubles per ton, prior to VAT. 100% prepayment is required.

In the Volgograd region Volgakhim is offering PVC produced by OAO "Khimprom" at Volgograd. Further details: Sergey Zabolko, Volgakhim, Tel/Fax +7 8442 30 80 61, E-mail: volgachim@bayard.ru. ZAO "Tekhresurs" is selling PVC from Sayanskkhimprom in the Irkutsk Oblast at 17,200 roubles per ton, pre-VAT, and PVC from Kaustik at Sterlitamak at 15,900 roubles per ton, pre-VAT. Further details : Eduard Isakov, ZAO "Tekhresurs", Tel/Fax +7 3952 53 33 00, E-mail: eduard@texres-irk.irmail.ru. Tekhresurs also can supply products from Usolyekhimprom and Angarsk Polymer Plant at discounted prices. These products include sodium hypochlorite, hydrogen peroxide, caustic soda, methyl cellulose, PVC, and LDPE.

| Chemical Production in Bashkortostan (unit-kilo tons) | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|---------------------------|-----------------|
| <i>Product</i> | <i>1993</i> | <i>1994</i> | <i>1995</i> | <i>1996</i> | <i>1997</i> | <i>1998</i> | <i>Producer</i> | <i>Location</i> |
| Ammonia | 172 | 205 | 243 | 263 | 126 | 0.1 | Minudobrenaya | Meleuz |
| Soda Ash | 989 | 897 | 985 | 879 | 905 | 712 | OAO "Soda" | Sterlitamak |
| Caustic Soda | 267 | 259 | 260 | 209 | 213 | 179 | ZAO "Kaustik" | Sterlitamak |
| Nitrogen Fert | 174 | 162 | 194 | 196 | 104 | 23 | Minudobrenaya | Meleuz |
| Phosphate Ferti | 105 | 64.8 | 93.6 | 63 | 59 | 35 | Minudobrenaya | Meleuz |
| Agrochemicals | 15.6 | 13.7 | 9.2 | 9.7 | 8.3 | 3.9 | Ufakhimprom | Ufa |
| Resins/Plastics | 221 | 193 | 195 | 169 | 240 | 306 | Miscellaneous (see below) | |
| Including | | | | | | | | |
| Polyethylene | 124 | 117 | 128 | 130 | 135 | 135 | SNOS/Ufaorgsintez | Salavat/Ufa |
| Polypropylene | - | - | - | - | 24 | 75 | AOZT Polypropylene | Ufa |
| PVC | - | - | 19 | 13 | 45 | 63 | ZAO "Kaustik" | Sterlitamak |
| Polystyrene | - | - | 37 | 17 | 27 | 23 | OAO "SNOS" | Salavat |
| Syn Rubber | 250 | 182 | 232 | 207 | 174 | 141 | OAO "Kautschuk" | Sterlitamak |
| Detergents | - | - | 34.1 | 21.3 | 15.9 | 15.8 | OAO "Soda" | Sterlitamak |

The German company Veka AG, a major producer of PVC window profiles, is to open a subsidiary in the Moscow region near the Vnukovo region. The company plans to manufacture on site.

OAO "Uralkhimplast" at Nizhniy Tagil in the Sverdlovsk region increased physical production by 25.3% in 1999 against 1998. In 1999 Uralkhimplast purchased Italian equipment that enabled an increase in production of PVC products, i.e., shoes and cables, by 50%. In 1998, Uralkhimplast increased PVC processing by 270% against 1997, producing around 14,000 tons of products. The main problem is a lack of raw materials. Unfortunately for the company the new equipment will have to undergo maintenance and will restart production in April.

Fertilisers/Methanol Azot at Kemerovo recorded a profit of 50 million roubles in 1999, and under the external management has restored its creditworthiness. By September this year Azot hopes that it will be able to come to agreement with creditors to end the bankruptcy period. Azot has been producing at high utilisation rates, particularly for products such as caprolactam where sales over the past twelve months have increased. 85% of Azot's total production is exported. At present, the company is paying not only for current deliveries, but is also clearing earlier debts.

**Taiwanese Imports of Caprolactam
from Russia and Central Europe (unit-kilo tons)**

| Country | Jan-Oct 99 | Jan-Oct 98 |
|----------------|------------|------------|
| Bulgaria | - | 1.008 |
| Czech Republic | 21,550 | 0.002 |
| Poland | 5,330 | 15,060 |
| Russia | 13,675 | 2,972 |
| Slovakia | - | 1,488 |
| Totals | 40,555 | 18,035 |

such as China, South Korea and Taiwan. In the first nine months of 1999 Azot produced 53,700 tons of caprolactam measured against 29,440 tons in same period for 1998.

Milco in the UK is offering the following products for sale from the Nizhny Novgorod region.

Product

Ammonia Liquid
Calcium Carbide
Ammonium Sulphate
Tri-Sodium Phosphate
Di-Sodium Phosphate
Ammonium Chloride
Monoethanolamine
Hydrogen Peroxide
Lithium Peroxide
Acetone
Acrylic Emulsions
Sodium Cyanide
Ethyl Liquid
Iron Pigments
Ethylene Oxide
MEG
DEG
TEG
Trichloroethylene
Caustic Soda
Nitrogen Liquid
Benzyl Chloride

Further details:

Nathan Long
Milco S.A.
2 Raleigh House, Admirals Way
London E14 9SN, UK
Tel : +44 (0) 171 987 0665
Fax : +44 (0) 171 987 0681
E-mail: global@innotts.co.uk

This year the management of OAO "Apatit" expects an increase in profits, in accordance with cost cutting and improved contracts with raw material suppliers. In 1999 Apatit produced 9 million tons of apatit concentrate.

AO "Nizhnovenergo" gave Korund at Dzerzhinsk an effective ultimatum by January 18, either to pay outstanding debts or to face power supply cuts. Korund produces calcium carbide, sodium cyanide, tri-sodium phosphate, di-sodium phosphate, polyisocyanate, polyurethanes, etc.

Nizhnovenergo has drawn up a black list of debtors on which Korund has been placed. About 130 million roubles is owed. True to its word energy supplies were reduced on January 18, although there was enough energy for the normal running of the plant. Even these volumes could be cut off if Korund continues to fail to pay its debts, which has forced the company to seek negotiations with Nizhnovenergo.

The US government has made a preliminary decision to impose anti-dumping tariffs of over 250% on Russian imports of ammonium nitrate. US trade officials decided on December 30 to impose sanctions of 264.59% on Russian imports of ammonium nitrate, singling out producer Nevinnomyssk Azot, based in the North Caucasus, as the main offender. Washington is acting on allegations by the Committee for Fair Ammonium Nitrate Trade, (which includes producers Air Products & Chemicals, El Dorado Chemical Co and La Roche Industries) that Russia has been dumping ammonium nitrate on the US market at below market value. According to the Commerce Department's findings, Russia sold 227,992 tons of ammonium nitrate for \$10.57 million (\$46.36 per ton) over the first nine months of 1999. Over the same period in 1998, Russia sold 153,900 tons for \$12.54 million (\$81.48 per ton).

Russia's price cutting may be explained by the effects of rouble devaluation on producers' costs. Until August 17, 1998 the rouble traded at about 6 to the dollar, while Russia's currency was between 21 and 25 to the dollar during the first nine months of last year. The Russian Trade Ministry plans to challenge the sanctions within 30 days. Nevinnomyssk Azot is holding

talks with lawyers to represent it in potential court proceedings.

CIS- currencies Jan 24th 2000

| Country | Currency | \$1= | EURO = |
|------------|----------|---------|---------|
| Azerbaijan | Manat | 4381 | 4405.41 |
| Belarus | Rouble | 937,500 | 938,981 |
| Kazakhstan | Tenge | 139.470 | 140.439 |
| Russia | Rouble | 28.5300 | 28.7220 |
| Ukraine | Hryvnia | 5.5200 | 5.5554 |
| Uzbekistan | Sum | 655.000 | 654.518 |

Official Russian exports of ammonium nitrate differ drastically from the US findings. According to the government, Russia produces over 2 million tpa of ammonium nitrate of which around 7% is exported to the United States, according to Russian sources. Exports may have reached \$20 million last year, compared to \$12 million in 1998. The ammonium nitrate tariff comes at a time when US producers are grappling over Russian imports. Just last June US

steel makers called for crippling anti-dumping tariffs to be imposed on cold-rolled, flat-rolled, carbon-quality steel. The Commerce Department opened an investigation into the allegations and was considering tariffs as high as 178%. But Russian authorities bowed to voluntary curbs and signed a preliminary agreement December 10 with Washington to cap shipments at 340,000 tpa.

Methanol output in Russia reached 1.442 million tons last year, compared to 1.179 million in 1998. In particular a large increase was recorded in the third quarter of 1999, totalling more than double the output

seen in Q3 of 1998. Strong performance was also noted in the fourth quarter of 1999. Apparently large shipments were sold from Gubakha to the US last year, in the range of 50,000 tons.

| Russian Methanol Production (unit-kilo tons) | | | |
|---|-----------------|-------------------|-------------------|
| <i>Producer</i> | <i>Location</i> | <i>Jan-Sep 99</i> | <i>Jan-Sep 98</i> |
| AO "Shchekinoazot" | Shchekino | 169.9 | 172.1 |
| AO "TNKhK" | Tomsk | 161.2 | 142.9 |
| AO "Metrafrax" | Gubakha | 406.6 | 331.6 |
| NSPP | Novocherkassk | 83 | 84.5 |
| Akron | Novgorod | 53.8 | 53.5 |
| Other | | 119 | 40.4 |
| Total | | 993.5 | 825.1 |

China Manzhouli inter trading co is seeking methanol of Russian origin in volumes of 2,000 tons per month. Other products required volumes of 500-1,000 tons per month include calcium carbide, MEG, acetone, 2-ethylhexanol, normal butanol, isobutanol, styrene, HDPE, acetone and phenol. Prices required are mainly on a DAF Zabaikalsk-Manzhouli

basis. Further details : Zhen Ri Liang, China Manzhouli inter trading co, Tel/Fax +86-432-3906287, E-mail: zhen98@mail.jihua-comm.com.cn.

Aromatics & derivatives

In January SKS was offering from Salavatnefteorgsintez toluene at 10,200 roubles per ton (in volumes of 300-400 tons per month), DOP at 20,000 roubles per ton (in volumes above 40 tons), and HDPE at 22,800 roubles per ton. Further details: Pavel Silantyev, OOO "SKS", Tel +7 34763 37811. E-mail: sp@bashnet.ru.

SKS is also offering polypropylene from AOZT "Polypropylene" at 20,000 roubles per ton. Elsewhere in Siberia MPM, located at Angarsk in the Irkutsk Oblast, is offering benzene at 10,000 roubles per ton. Further details: Igor Chizhkov, MPM, Tel +7 3951 532785/538452, E-mail: ig_green@angarsk.ru.

Phthalic anhydride is being offered at \$720 per ton by Recycle, in addition to orthoxylene. Further details: Maxim Shmakov, Recycle, Tel/Fax +7 3422 16 11 44, E-mail: recycle@permonline.ru. OAO "Orgsintez" at Novomoskovsk is offering maleic anhydride and fumaric acid for sale. Further details from Irina Viktorovna Evyagina, OAO "Orgsintez", Tel/Fax +7 8762 4-95-70, E-mail: orgsing@newmsk.tula.net.

Amongst the aromatic monomer producers Kinef at Kirishi and the Ryazan refinery have been subject to mother holding company changes in recent months. At present efforts by AO Surgutneftegaz to take over its own holding company have unsettled investors which do not want to lose a blocking stake in the organisation. The Ryazan refinery is part of the Tyumen Oil Co (TNK) which is one of the most aggressive Russian oil companies and is undertaking expansion plans. In addition to the Ryazan refinery TNK owns the Nizhnevartovsk refinery in West Siberia which processed 2.2 million tons of crude in 1999, producing 308,300 tons of naphtha. Ryazan has one of the best locations in central Russia, giving TNK an edge over its competitors.

C4s In 1999 OAO "Tobolsk Petrochemical Combine" achieved revenues of 2,054.866 million roubles compared to 940.4254 roubles in 1998. The devaluation of the rouble and its effect throughout the economy makes direct comparisons meaningless, but in physical volume terms the company has seen increases in most of the product areas. Tobolsk Petrochemical Combine is now part of the SIBUR organisation which is taking an increasing interest in the chemical sector.

| Tobolsk Petrochemical Combine Production (unit-kilo tons) | | |
|--|-------------|-------------|
| <i>Product</i> | <i>1999</i> | <i>1998</i> |
| LPGs | 995.206 | 637.16 |
| Propane-Butane | 137.02 | 179.636 |
| Propane | 384.86 | 99.916 |
| Isobutane | 230.56 | 157.694 |
| Butane | 379.76 | 259.914 |
| Isopentane | 42.76 | 48.537 |
| Pentane | 29.91 | 34.804 |
| Hexane | 12.2 | 20.145 |
| Butadiene | 147.440 | 137.401 |
| Isobutylene | 10.56 | 14.679 |

In the Perm region OAO "SIBUR" is investing \$20 million in the development of OAO "Uralorgsintez", including energy supply and steam at the complex. Also, a plan exists for the construction of an MTBE unit.

Discussions are underway regarding the MTBE project with Russian companies Giprokautschuk and Yarsintez, and the German company Mg Engineering Lurgi Chemnitz. In 2000, Uralorgsintez hopes to revive production at the 80,000 tpa isobutylene unit in conjunction with a new catalyst. In 2001, plans exist for a revival of a the 60,000 tpa unit for isoprene in a one stage process.

Synthetic rubber

OAO "Omsk Kautschuk" saw a recovery in fortunes in 1999 under the mantle of external management. Production facilities were used far more than in previous years with synthetic rubber output reaching levels of 4,000 tons per month. The production of rubber stabilisers has started to be explored by Omsk Kautschuk, whilst in conjunction with the Omsk refinery propylene was produced in volumes of 5,000 tons per month. In October Omsk Kautschuk started the production of glyksols. The company's future depends on the debts, particularly with the Omsk refinery and Sibneft.

Carbon black totalled 349,000 tons, a 19.4% increase compared against 1998. Russian tyre output increased 17% overall in 1999, with car tyres increasing by 20.6%. After a modest increase in the first half of 1999 the third and fourth quarters recorded strong performance. Amongst the tyre manufacturers Yaroslavlshina (Yaroslavl Tyre Plant) showed an increase of 48% in 1999 compared to the previous year. In 1999 the company's profit margins from production are estimated at 14.5% compared to 6.5% in 1998. Turnover increased by 2.2 fold although direct financial comparisons are reasonably meaningless due to the dramatic devaluation of the rouble. It could be a fair guess that this year's turnover will not increase by the same margin.

Pharmaceuticals Indian company IPCA company intends to create a pharmaceutical joint venture in Voronezh to produce antitubercular, antimalarial, cardiovascular and gastrointestinal preparations.

In the Irkutsk Oblast 60% of shares will be offered in OAO "Usolye-Sibirskiy Chemical-Pharmaceutical Combine" on March 16. The company is considered to be in the group of the largest manufacturers of substances for the production of pharmaceuticals.

Ukraine

The changes taking place at Oriana are becoming more complex by the month. The latest news is that a company NPIG "Interpipe" is offering petrochemicals from Oriana in approximate volumes of 1,000 tons per month. The products concerned include ethylene, propylene, benzene, C4 fractions (butane-butadiene), benzene fractions (C5, C9), and pyrolysis fuel.

Interpipe Group represents as an international corporation which consolidates enterprises from Ukraine and CIS. The main activity of the Group is the production of steel and iron tubes, the delivery of equipment for CIS countries' fuel energy complex, the supply of the natural gas for Ukrainian industrial enterprises. At present time, Interpipe Group is providing Oriana with natural gas.

Other Ukrainian companies which are looking to develop foreign contacts include the Sivash Aniline Dye Plant, which is the largest domestic producer of azodye. The company specialises in the production of dyestuffs that are used for dyeing cotton, viscose, natural silk and leather. Further details: Aleksandr Cherkashin, Director, Sivash Aniline Dye Plant, Crimea 334902, Ukraine, Tel/Fax +380 06567 3 34 30, 3-39-49, Fax +380 06567 33430, 33949, E-mail: titan@pop.cris.net.

Kazakhstan

National oil company Kazakhoil and the Marubeni Corporation plan to sign a contract by the end of March for the renovation of the Atyrau Refinery. The Japanese side is expected to prepare a contract by the end of February. Kazakhoil and the Atyrau Refinery pledged to provide Marubeni with all relevant information on technical details and equipment characteristics by January 15, and oil samples from fields in the Mangyshlak and Martyschinsk basins by January 20. The first stage of the project, which includes engineering work, equipment delivery and construction of a new oil processing facility, is planned for completion by September or October 2000.

The Atyrau Refinery modernisation project, which will improve facilities for fractionating, hydro-purification of diesel fuel, amino-purification, isomerisation and sulphur extraction, will increase plant capacity to 4.3 million tpa and cost an estimated \$412 million.

Kazakhstan produced 30,043,323 tons of oil and gas condensate in 1999, 0.8% above target and 15.8% more than in 1998. Gas production totalled 7,173 million cubic metres (1.1% below target and 30.4% more than in 1998). Kazakhstan will limit oil exports in 2000 to no more than 22 million tons in order to ensure that domestic refineries receive adequate supplies of crude. Deliveries to the domestic market declined steeply in 1999 due to rising world oil prices.

Domestic refineries need to receive at least 9.5 million tpa of crude oil in order to produce enough gasoline to meet domestic demand. Kazakhstan's refineries, Atyrau (in the west), Pavlodar (north) and Shimkentnefteorgsintez (south), have a total capacity of 19 million tpa. The Pavlodar refinery is geared to process oil produced at Russian fields in Siberia. It was idle for much of the year due to shortages of crude.

In 1999, the production of oil products in Kazakhstan dropped by 28% vs 1998 to 5,732,000 tons. The republic's refineries produced 1,297,000 tons of gasoline, which was about three quarters of their 1998 level. Kerosene output fell by 69% to 71,300 tons, diesel fuel totalled 1,829,000 tons (73% of 1998), and mazut production dropped to 2,132,000 tons (70% of 1998). According to Statistics Agency data, the production of oil coke, oil bitumen and other residues from oil processing decreased by 49% last year. In 1999, the Shimkentnefteorgsintez refinery (ShNOS) processed 3.3 million tons of crude against 3.7 million tons in

1998. The installed capacity is 6 million tpa. ShNOS, controlled by Kazkommertsbank, is currently in the process of being acquired by Canadian oil company Hurricane Hydrocarbons.