

CIREC

MONTHLY NEWS

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

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

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Features from the February 2003 issue

- The Czech Finance Ministry has decided to sell the 63% stake of Unipetrol in one tranche and not to sell its six subsidiaries separately. The Czech government wants to sell the company by the end of 2003, or by the latest at the beginning of 2004. PKN Orlen is one of the bidders hoping to pick up the stake and will make a final decision after analysing the tender requirements. A reported seventeen companies have bid including Rotch, MOL and OMV.
- The Polish authorities have deferred the commencement of the PKN-Orlen-Basell joint venture from the end of January to the end of February. This delay is seen as not being significant, but it merely allows the Polish antimonopolistic office to study the terms of the polyolefin JV. From one angle it could be said that this JV will have a virtual monopoly in the sector, at least it will have for polypropylene and almost entirely for polyethylene.
- The Pancevo oil refinery NIS-Rafinerija processed three million tons of crude oil, which is close to the results of 1990 when its production peaked before the period of sanctions. In the year 2002, the company invested almost a billion dinars in the reconstruction and modernisation of our plants, and the next four-year strategic development plan envisages investments of about 260 million dinars.
- The Kstovo petrochemical plant processed 482,500 tons of raw materials, in 2002, showing a 1.2% fall over 2001. 23,600 tons of pyrocondensate was processed for benzene production. A slight decline in the production was caused by feedstock supply failures in the first half of 2002. Another factor was the temporary operation in a hot circulation mode due to a cut-off of reserve electric power by Nizhnovenergo from 21 February-11 March 2002.
- YUKOS continues to supply oil to Nizhnekamskneftekhim following reports that the two companies had stopped working together. YUKOS supplies up to 5,000 tons of wide fractions of light hydrocarbons a month and up to 2-3,000 tons of butyl-butadiene and butane-butylene fractions. Right now Nizhnekamskneftekhim is working under long-term agreements for feedstock with several Russian companies and have not broken off relations with any of them.
- The Ivano-Frankovsk Court has started bankruptcy actions for Oriana at Kalush, the result of which should be known by 12 February. The main creditors' group includes the Lvov Railroad Company, the Ivano-Frankovsk regional administration and Lukor, the JV that was formed in December 2000 by LUKoil-Neftekhim and Oriana.
- A number of options are being reviewed by Azot for the restart of the LDPE facilities at Severodonetsk, including the purchase of ethylene from merchant sources from other petrochemical plants in the former USSR. The polyethylene capacity is 220,000 tpa, based on four lines, constructed by Salzgitter in 1980. The equipment, including the reactor and other parts of the plant, is in surprisingly good shape despite the fact it has not worked for seven years.

CENTRAL EUROPE

Czech Republic

(Czech crown, Kc, Jan 27, \$1 = 29.090, €1 = 31.5772)

Unipetrol

The Czech Finance Ministry has decided to sell the 63% stake of Unipetrol in one tranche and not to sell its six subsidiaries separately. The Czech government wants to sell the company by the end of 2003, or by the latest at the beginning of 2004. PKN Orlen is one of the bidders hoping to pick up the stake and will make a final decision after analysing the tender requirements. A reported seventeen companies have bid including Rotch, MOL and OMV. Agrofert Holding was expected to be one of the bidders for Unipetrol but the company would probably not be bidding for Unipetrol alone, or also under the same conditions.

The estimated value of the transaction will exceed \$200 million, although the Czech government is hoping if possible to achieve over \$300 million. Two years ago Rotch Energy offered €444 million for Unipetrol but the cabinet picked Agrofert stating Rotch Energy was not a strategic partner.

Analysts point out that the group's economic situation has worsened and that it is not yet clear whether the new model of Ceska Rafinárska (CeR) as a reprocessing refinery will be functional or not.

The cabinet also decided to set up a government commission, composed of two representatives each of the Finance Ministry, Industry and Trade Ministry and National Property Fund, and one representative each of the Local Development Ministry, Environment Ministry and Agriculture Ministry. The commission will coordinate the activities of the adviser. The cabinet also decided to set up a commission to evaluate the bids.

The FNM has called a tender for legal adviser for privatisation of Unipetrol to secure legal services in the choice of a strategic partner for the chemical holding firm, with 6 March a deadline for submitting bids, according to the FNM.

The price will be the main criterion (35%), followed by experience and knowledge of economic and business environment both in the Czech Republic and the EU (25% impact on decision-making). Carrying out similar orders in the past will be next with a 20% weight.

Ceska Rafinárska

Unipetrol has four new representatives of the state on its 12-member supervisory board after a decision of an extraordinary general meeting in January. The changes were proposed by the FNM. The EGM also extended the company's area of business to refining, due to the planned transformation of CeR into a re-processing refinery as of 1 January 2004.

The EGM also altered the articles of association, changing the method of management of its strategic units, which should make the group more transparent. Preparations for the transformation have already begun with Unipetrol already approving a plan to end the dispute with partners at CeR by moving all non-processing operations to a new subsidiary. The re-processing rights of CeR will be exercised by Unipetrol Rafinerie, a 100% subsidiary of Unipetrol, with expected annual sales of Kc 25 billion.

Due to the transformation of Ceska Rafinárska, Chemopetrol's annual costs should be cut by Kc 200-300 million against last year. However, the transformation may still have to be approved by the anti-monopoly office UOHS. Unipetrol holds 51% of CeR but does not have management control over the refinery division, which posted a nine-month loss of Kc 1.05 billion in 2002.

Agip, Royal Dutch Shell and ConocoPhillips own the rest of the refiner and Unipetrol has been at odds with them on supply prices between the refinery and the rest of the Czech chemicals group. A lengthy row last year resulted in a deal to transform CeR strictly into a unit that processes crude oil for its owners. Risks involved in the purchase of oil, marketing and other non-processing operations will now be carried by a wholly-owned unit that Unipetrol plans to set up.

Unipetrol said the change, which should be completed in 2004, should bring needed synergies to the group and slash costs at petrochemicals units Chemopetrol and Kaucuk. The transformation, which aims to save Kc 560 million in costs for Chemopetrol and Kaucuk, should not raise Unipetrol's already high debt load. Chemopetrol should be able to reduce purchases of expensive inputs from abroad after the change, while Unipetrol's petrol

distributor Benzina could increase purchases from within the group. The plan should bring synergy effects which should be positive for Unipetrol's transformation.

Coal

The USA's Appian Group, the majority owner of Czech mining company MUS, has signed a mid-term contract with the Chemopetrol refinery on supplies of 12.35 million tons of brown coal by end-2008. The two heat plants securing energies for Chemopetrol's premises have annual coal consumption of two million tons.

The contract means significant support to economic and social stability in the region. MUS and Chemopetrol are among the largest employers in the Most district which is a Czech region which shows high unemployment.

Flood damage

It is estimated that the damage caused to the Unipetrol group by last year's floods at Kc 1.6 billion, of which Kc 1.228 billion will be covered by insurance. Spolana was one of the main causes behind the losses, following the repairs of the PVC plant in the summer and the chlorine leaks following the floods in August.

Chemopetrol

Chemopetrol has broadened its portfolio of polypropylene resins following the start up of the new polypropylene plant, which lifts its capacity to 250,000 tpa. New tailor-made materials are being targeted at injection stretch blow moulding, extrusion blow moulding and thermoforming all feature on the new grade slate.

The revitalised portfolio also includes a range of five new products clarified with the third generation of Milliken Chemicals' Millad 3988 agent. The new grades include both homopolymer and copolymer materials under the Mosten name. The Czech producer chose Milliken clarifying technology for these grades for a number of reasons including optimum transparency and higher gloss, shorter cycle times and outstanding organoleptic properties.

Slovakia

(Slovak crown, Sk, Jan 27, \$1 = 38.9380 €1 = 42.27)

Chemosvit Svit, Slovakia's largest producer of polypropylene and polyethylene packages for the food industry, expects its full-year net profit for 2002 to reach Sk 90 million. In the period January-November, the company made gross profits of Sk 171 million, up from Sk 47.3 million in the first eleven months of 2001, on sales of Sk 3.243 billion.

Most of the 17 units of the Chemosvit group, including four subsidiaries based in Ukraine, made profits last year. The company had managed to meet all main objectives, above all to reduce debts, to retain the volume of sales to key territories, to raise sales, and to cut costs on material and energies. Chemosvit exports almost 74% of its annual output, in the first eleven months of 2002 this was to the Czech Republic (23.95%), Russia (12.43%), and Poland (13.01%).

Hungary

(Hungarian forint, Ft, Jan 27, \$1 = 227.16 €1 = 247.1575)

TVK-BorsodChem ethylene supplies

TVK signed a delivery contract with BorsodChem on 10 January for ethylene supplies for 2003. Under the contract, TVK is to supply BorsodChem with 80,000 tons of ethylene this year, under the same conditions as established in their 2002 contract. According to the previously published skeleton agreement, the ethylene price

BorsodChem's Ethylene-VCM (unit-ktons)		
Year	Ethylene from TVK	VCM Production
2002	80 (est.)	196 (est.)
2001	88.3	219.6
2000	86	214.0
1999	66.2	185.4
1998	54.8	188.9
1997	47.7	177.9

contains a 3.5% premium over the world-market price. By law, the contract will have to be approved ex post by TVK's EGM on 24 April.

TVK signed the annual contract on the basis of a 10-year framework agreement that expires in 2003. BorsodChem is paying the ICIS-LOR reference price, plus a 3.5% surcharge for the 80,000 tons of ethylene. As shown by the numbers below BorsodChem's purchases of

ethylene from TVK peaked in 2001, but TVK needs more monomer for its own captive requirements.

As a result BorsodChem has been compelled to purchase additional product from other sources in Ukraine and the Czech Republic. Thus, in addition to the 80,000 tons reserved in the contract with TVK, BorsodChem plans to

purchase between 5,000 and a maximum of 10,000 tons from Lukor in Ukraine. BorsodChem hopes to see a 4%-5% increase in sales this year, partially due to favourable trends on European markets.

Nypro

Nypro is to invest around €5 million on a paint line and automated assembly line equipment at its new manufacturing facility in Hungary. The company will also employ around 50 personnel at the 2,000 square metre Nagyimand contract manufacturing facility, due come on-line on 15 February. Nypro continental Europe is carrying out in-mould decoration and in-mould labelling at the heavily automated facility. There is a particular demand for this type of work in the automotive, telecommunication and office equipment industry. The company plans eventually to carry out injection moulding at Nagyimand.

Henkel

Henkel Hungary plans further capital expenditures in addition to expanding operations at its four factories in Hungary. Henkel spent Ft 2 billion on capital expenditures in 2001 and Ft 1.9 billion in the period January-November 2002. Investment in 2002 included Ft 1 billion project to expand capacity at the liquid detergent plant in south-east Hungary and the setup of a Ft 500 million logistics centre.

Poland

(Polish zloty, zl, Jan 27, \$1 = 3.8620 €1 = 4.1922)

PKN Orlen-Basell

The Polish authorities have deferred the commencement of the PKN-Orlen-Basell joint venture from the end of January to the end of February. This delay is seen as not being significant, but it merely allows the Polish antimonopolistic office to study the terms of the polyolefin jv. From one angle it could be said that this jv will have a virtual monopoly in the sector, at least it will have for polypropylene and almost entirely for polyethylene. However, for the past three years PKN Orlen has been losing market share in polyethylene and polypropylene sales, as imports have played an increasing role in the sector. The main reason for this is seen as the delays in investment and so it seems extremely unlikely that the deal would be cancelled.

Orlen Polyolefin, the proposed name of the jv, will construct new polyethylene units and a polypropylene unit at a joint cost of \$750 million. Of this amount \$250 million will be directed towards the construction of the II Olefin complex at Plock for ethylene and propylene.

After the construction of the new capacities the Orlen Polyolefin jv will hold 320,000 tpa of HDPE (not 105,000 tpa as reported last month!) and 280,000 tpa of LDPE. With a current capacity of 315,000 tpa at Litvinov and an expansion at Tiszaujvaros underway to 410,000 tpa, HDPE capacity will total 1.045 million tpa by 2006.

Rafineria Gdanska

PKN Orlen said in January that it would need approximately a 100 million euro loan to finance the planned purchase of a stake in smaller domestic rival Rafineria Gdanska (RG). The deal, which would create the region's largest refining group in terms of capacity, is one of Poland's top privatisation projects this year. However, there are reports that Nafta Polska opposes such a merger.

The PKN supervisory board would prefer a full merger with RG as the aim is to establish a joint central management.

Polish chemical sector restructuring

Nafta Polska will present a strategic programme to the government for the restructuring of the Polish heavy chemical in the near future. There has been an ongoing process of discussion and consideration of how the sector should move forward, and one of the major concerns of the politicians has to been to avoid large lay-offs of staff. Other factors include concerns about costs, that the industry needs substantial investment to bring it up to West European or EU standards and to give local producers the possibility to compete on an equal footing.

Aside investment in improving the environmental standards of plants, funds are also required for new capacities. The south of Poland has been neglected particularly with the collapse of the Poludnie project in the late 1990s. It is felt in some circles that there are gaps in the marketplace that would justify a petrochemical plant. With this goal in mind Rafineria Czechowice revealed plans in late 2002 that it wants to spend around \$200 million on building a new petrochemical complex in the south of Poland. The project could be completed by the end of 2005 and, if completed, would also transform the small oil refinery (with a current capacity of 500-600 tpa) into an important producer of chemical products. The development plan was proposed by Lurgi Bipronaft, which belongs to Lurgi Oel Gas Chemie. Talks with several potential foreign investors have been held, but nothing concrete has arisen yet.

Another idea is a proposed ethylene pipeline to Petrochemia Blachownia at Kedzierzyn-Kozle. The investment would require EU financing or some other institutional support, as none of the Polish companies is able to pay for the pipeline with its own funds. Petrochemia Blachownia needs ethylene for ethylbenzene and also for the LDPE unit under the subsidiary Poli-Chem.

PET

The PET project at Wloclawek, being undertaken by the company SK Eurochem, is planned to start production in 2004. The credit agreement between SK Eurochem and EBRD (European Bank for Reconstruction and Development) was signed on 17 November 2002 in Warsaw. EBRD will be a shareholder together with Korean companies SK Chemicals and SK Global as well as Anwil SA. EBRD is organising a \$40 million credit.

For support of construction of the new plant the EBRD granted a loan of \$15 million and paid \$3.3 million for a shareholding. The remaining \$73 million will be provided by the Export-import bank of Korea and two Korean commercial banks. The plant capacity will be 120,000 tpa and will be managed jointly by SK Chemicals, SK Global and Anwil. Daewoo Engineering was chosen as the engineering contractor. Construction will begin in the near future.

Biofuels

Polish copper and silver miner KGHM is considering entering the huge prospective bio-fuels market which will open if the Polish President signs the bio-fuels bill. The company is planning to construct an agro-refinery to produce bio-components mainly for Rafineria Gdanska refinery, using Lockheed Martin offset capital to partially finance the investment.

If KGHM plans materialise construction might start in the spring to be ready for the 2004 rape harvests. The total cost of the construction of the plant may reach zł 60 million (€14.8 million), and together with operating assets the investment may reach even zł 100 million.

Forthcoming events

2nd Annual CEE Chemical and Petrochemical Industry 2003, 18-19 February 2003

Location: Budapest, Hungary.

Conference organiser : Marcus Evans

The Chemical and Petrochemical Industries of Russia, the CIS and CEE, 22-23 May 2003

Location: Frankfurt, Germany

Conference organiser : Global Business Forums: *Web links for both events can be found at www.cirec.net*

SOUTH EAST EUROPE

Croatia

(Croatian Kuna Jan 27, \$1 = 6.9319 €1 = 7.5426)

OMV, MOL and Rosneft have bid for the share of 25% plus one share in INA. However, Croatia is reported to have asked these companies (although some say they have not been approached) to raise their offers. The final decision, expected in late March, would depend around 30% on the price, 50% on the proposed business strategy and 20% on transaction risks and offered bank guarantees.

All three bids were in line with expectations and create room for further negotiations, even if the state is dissatisfied with the price. According to unofficial sources, the bids for INA range between \$250 million and \$400 million. A successful sale of the INA stake would be one of the major privatisation deals since Croatia declared independence in 1991.

Romania

(Romanian lei Jan 27, \$1 = 33,270.00 €1 = 36,114.59)

Arpechim

Stone & Webster has been awarded a contract by Arpechim to increase capacity of the ethylene and HDPE plants at Pitesti. The study is due for completion in the next few weeks. The project aims to expand Arpechim's ethylene plant from 200,000 tpa to 300,000 tpa.

The construction contract is to be awarded by mid-2003 and the work completed over a period of three years later. Arpechim has a 30,000 tpa HDPE plant and an 80,000 tpa LDPE plant. The HDPE capacity will increase to

120,000 tpa. Arpechim is part of the Romanian oil holding Petrom which is currently going through early stages of privatisation.

Rompetrol

Rompetrol's Petromidia oil refinery last year achieved \$800 million in turnover with lower operational losses than in the previous year. In 2002, Rompetrol invested \$50 million in upgrading and at the same time cut processing costs at the refinery, which processed a quantity of 3.2 million tons. In 2003, the company hopes to attain the maximum refining capacity of 4 million tons.

Petromidia will continue to upgrade its facilities this year, when the refinery should be entirely automated, with investments expected to reach \$50 million. There are some reports that investments will also be made in the petrochemical sector and this could mean a restart of ethylene and polyethylene production.

Yugoslav Chemical Production (unit-tons)		
Product	Jan-Aug 02	Jan-Aug 01
Sulphuric Acid	51,841	42,081
Nitric Acid	91,134	75,590
Caustic Soda	4,511	5,097
Phosphate Fert	17,354	69,904
Nitrogen Fert	307,721	249,339
Polyethylene	76,860	67,903
Detergents	27,638	34,786
Coating agents	11,363	12,021

Yugoslav Foreign Trade (unit-tons)		
Exports		
Product	Jan-Sept 02	Jan-Sept 01
SBR	31,838	22,264
Propylene	1,889	515
Methanol	2,305	4,021
Acetic acid	3,880	634
Polyethylene	53,599	38,021
Polypropylene	7,171	8,577

Imports		
Product	Jan-Sept 02	Jan-Sept 01
Fertilisers	233	433
Carbon Black	9,168	7,345
Polyethylene	29,606	24,625
PVC	6,788	9,152
Synthetic Rubber	11,972	14,869

Bulgaria

(Bulgarian Lev Jan 27, \$1 = 1.9640 €1 = 1.8093)

The Supervisory Board and the Board of Management of LUKoil-Neftochim has voted in favour of the investment programme for the refinery. According to the programme there will be invested \$178 million in the revamp. Last year, LUKoil-Neftochim paid a total of 1.067 billion lev in taxes in 2002. The old debts that LUKoil inherited for the Neftochim refinery were repaid by the middle of 2001.

Yugoslavia

(Yugoslav Dinar Jan 27, \$1 = 58.01 €1 = 62.97)

The Pancevo oil refinery NIS-Rafinerija processed three million tons of crude oil, which is close to the results of 1990 when its production peaked before the period of sanctions.

In the year 2002, the company invested almost a billion dinars in the reconstruction and modernisation of our plants, and the next four-year strategic development plan envisages investments of about 260 million dinars.

BALTIC STATES

A Russian trading company is becoming involved in a jv with YUKOS where they would act as supplier to the Mazeikiu refinery for methanol for MTBE production. This probably involves Russian suppliers, but other sources will be considered depending on price. YUKOS became involved at the Mazeikiu refinery last year.

The President of Estonia has said it is ready to offer Tatarstan its participation in the joint oil refining operations. Tatarstan has been traditionally exporting oil and petroleum products, synthetic rubber, ethylene polymers, tyres, grain to Estonia. Estonia exports rubber vulcanisation accelerators, phenols, prefabricated engineering structures and textiles. According to 2001 results, the foreign trade turnover between Tatarstan and Estonia amounted to \$10.99 million which is nearly twice lower than in 2000.

EURASIA, COMMONWEALTH OF INDEPENDENT STATES

Russia

(Rus rouble Jan 27, \$1 = 31.8000, €1 = 34.52000)

Goskomstat stated that the volume of production of the chemical and petrochemical industry in Russia in 2002

increased on 2.2% in comparison with 2001. In the end the aggregate numbers were slightly disappointing as it looked as if production could increase by more than 3% for the year. Generally the petrochemical industry performed stably with most plants achieving good utilisation rates.

Mineral fertiliser production totalled 13.6 million tons, 4% higher than in 2001, sulphuric acid totalled 8.6 million tons, or 4.1% higher, whilst synthetic rubber in 2002 was 919,000 tons which was 200 tons down on 2001. Production of caustic soda was reduced by 4.4% to 1.1 million tons, but soda ash rose in 2002 rose by 1.2% to 2.4 million tons.

For 2002, Russia produced 57,200 tons of thermoplastic pipes which was 7.3% up on 2001. The paint and varnish industry saw a downturn with 557,000 tons, which was 11.2% down.

Full year trade numbers are not yet available but in the period January-November 2002 Russia exported 2.95 million tons of calcium phosphate, 2.14 million tons of ammonia, and 923,700 tons of methanol, 8.29 million tons of nitrogen fertilisers, 5.023 million tons of potassium fertilisers, and 371,600 tons of synthetic rubber.

Oil refining/feedstocks

The Moscow refinery despite difficulties in the in the second half of 2002, succeeded in meeting the demand of Moscow market of oil-products, and still held about 50% share of market. Output of light oil-products was increased by 56% with 1.948 tons of gasoline. In the first three quarters of 2002 the refinery produced 58,000 tons of polypropylene which is almost identical to the level in 2001.

LUKoil and SIBUR have agreed to create a jv at the Lokosovsk gas processing plant, which was previously part of SIBUR-Tyumen. Both companies will take 50% stakes in the jv. LUKoil spent \$64 million on the development of gas processing in 2002, including \$14 million on construction of a compressor station, bulk storage facilities at \$20 million, and also the purchase and construction of new gas mains at \$30 million. The plan is increase the processing of gas at the Lokosovsk gas processing plant up to 1.5 billion cubic metres per annum.

SIBUR has created a jv with Sibneft based on the Noyabrsk gas processing plant, which is also part of the SIBUR-Tyumen structure. By contrast to the LUKoil jv SIBUR will hold the 51% majority share in the jv with Sibneft. It is expected that the company will be registered at the end of January. The joint venture represents a change of course at SIBUR. The holding has so far used its dominant market position to keep the lion's share of the value in the gas that Russia's oil majors produce in the course of their oilfield operations. The general lack of opportunities to sell gas at market prices in Russia has stopped the oil companies from developing their substantial gas reserves.

SIBUR

On January 20 the arbitration court of Khanti-Mansiisk autonomous area made a decision to enforce the external

**SIBUR-Neftekhim's Production at Kstovo & Dzerzhinsk
(unit-tons)**

Product	Jan-Dec 2002	Jan-Dec 2001
Ethylene	153,300	160,427
Ethylene Oxide	47,200	42,729
MEG	123,200	133,802
DEG	14,100	14,731
TEG	885	994
Propylene	77,500	77,531
Benzene	37,500	43,934
BB fractions	39,400	38,116
C9	8,700	13,033
C5	18,970	16,424
Epichlorohydrin	8,660	6,353
EDC	79,490	73,199
PVC	31,350	31,442
VCM	32,940	33,006
Cable Plasticizer	25,440	29,422
Coagulants	1,260	3,090

administration at SIBUR-Tyumen. According to the court decision, the external administration shall be in force for the period of one year. At present, SIBUR-Tyumen's accounts' payable amount to approximately 7 billion roubles, over 60% of this sum is owned by SIBUR and Gazprom. In the first nine months of 2002 SIBUR's profits totalled 288 million roubles.

In January SIBUR-Tyumen's gas processing plants processed 4,700 tons per day of hydrocarbon materials. The programme of development for SIBUR-Tyumen is focused on construction, particularly the Bakhilovsk compressor station which will have a capacity of 1.4 billion cubic metres of gas per annum.

SIBUR-Tyumen has improved its performance over the last year and a more stable environment has allowed the holding

company to renew the shipment of hydrocarbons from the Perm gas processing plant to the Novokuibyshevsk Petrochemical Company and to increase shipments of raw materials to Uralorgsintez.

Tobolsk Petrochemical Combine, which is key plant for SIBUR, has also seen its profit performance start to change in recent months.

SIBUR-Neftekhim

The Kstovo petrochemical plant processed 482,500 tons of raw materials, in 2002, showing a 1.2% fall over 2001. 23,600 tons of pyrocondensate was processed for benzene production. A slight decline in the production was caused by feedstock supply failures in the first half of 2002. Another factor was the temporary operation in a hot circulation mode due to a cut-off of reserve electric power by Nizhnovenergo from 21 February-11 March 2002.

MEG production fell against 2001 to 123,200 tons, or 7.9% down on the previous year; DEG fell by 4.2% to 14,100 tons; and TEG fell 885 tons of triethylene glycol (108.6% and 89%). Ethylene oxide rose to 47,200 tons, or 10.4% higher compared with 2001. Kaprolaktam at Dzerzhinsk increased production of hydrochloric acid to 41,600 tons which was 27.9% higher, and sodium hypochlorite 8,690 tons, which was 33.5% higher.

According to 2003 business plan the Kstovo petrochemical plant will increase processing of hydrocarbon raw materials up to 554,500 tons and pyro-condensate up to 44,000 tons.

SIBUR-Neftekhim's Production Forecast at Kstovo & Dzerzhinsk (unit-tons)

Product	Jan-Dec 2003	Jan-Dec 2002
Ethylene	175,682	153,300
Ethylene Oxide	51,118	47,200
MEG	153,261	123,200
Propylene	87,033	77,500
Benzene	51,375	37,500
Epichlorohydrin	8,868	8,660
Cable Plasticizers	30,604	25,440

In 2003, the investments into the construction of new facilities will amount to 820.5 million roubles. 258.6 million roubles will be invested into reconstructing existing plants and 207.3 million roubles into upgrading of the existing facilities.

Yaroslavl tyre factory

Having returned Yaroslavl tyre factory in December 2002 to the control of SIBUR, the plant's future is once again in question in a

dispute over debts between SIBUR and the bank Zenit. Zenit argues that SIBUR not yet settled the debts and as a result it has threatened to bankrupt the Yaroslavl factory.

In 2001 the control package of a factory was incorporated into the Vnesheconombank in a security for credit for the sum 43 million after SIBUR could not pay with bank. In December 2002, SIBUR declared, that the holding had re-structured a duty to Vnesheconombank after which shares were returned.

Novokuibyshevsk Petrochemical Company

Novokuibyshevsk Petrochemical Company has now completed the modernisation of its isoprene unit which started in April 2002. The overhaul of the complex and partial reconstruction was aimed at an increase of profitability. There was an accident in January, involving a leak of poisonous gas leak, which killed one person and hospitalised 18. The gas was identified as isoprene, but it is no clear if it was linked to the modernisation.

The production of isoprene at Novokuibyshevsk comes under the authority of the No 3 plant Tolyattikaucuk. The costs of repair and preparation for start-up totalled 20.3 million roubles, taking the capacity of the updated unit now to 65,000 tpa. The main production activity at Novokuibyshevsk Petrochemical Company consist of propane, isobutane, normal butane, isopentane, normal pentane, hexane fractions and catalysts.

Tolyattikaucuk is one of the largest producers of polyisoprene in Russia. The upgraded isoprene unit will allow the No 3 plant to take a leading place in manufacture of this kind of synthetic rubber. Tolyattikaucuk reports that it is currently in the market for 14,000 tons of butylene-butadiene fractions, 14,000 tons of isobutane-isobutylene fractions, 2,000 tons of isobutylene concentrate, 1,500 tons of butadiene, and 45,000 tons of wide fractions of hydrocarbons.

Tatarstan

Tatneftehiminvest-Holding has created an innovation fund for the financing of scientific progress in the sphere of petrochemical technology, energy and resource saving environmental measures. A sum of 100 million roubles will put into the fund which will include members Tatneft, Nizhnekamskneftekhim and Kazanorgsintez. The fund has been established with the aim of introducing new more profitable means of production technology.

Tatneft's total oil production in 2002 was 24.612 million tons and 718 million cubic metres of associated gas. In the company's investment programme in 2002 9.6 billion roubles was invested with a significant share directed towards the petrochemical complex. The proceeds of the company for 2002 are expected in the range of 107

billion roubles, or 6.4% more than 2001. The cost price per extraction of 1 ton of oil in 2002 was 1,844 roubles, which was 41% more than in 2001.

Nizhnekamskneftekhim

Production performance in 2002

In 2002, Nizhnekamskneftekhim produced 447,895 tons of ethylene against 435,000 tons the previous year. For 2003, Nizhnekamskneftekhim is aiming to achieve a turnover of 20.5 billion roubles, or 0.5% more than in 2002.

Apart from projects this year on polystyrene, ethylene, etc, the company plans to introduce energy saving measures to help reduce production costs. With the ongoing furnace modernisation programme at Nizhnekamsk ethylene production this year is expected to surpass 2002 levels.

The feedstock position has been very stable over the past year which has allowed Nizhnekamskneftekhim to provide sufficient material in ethylene for captive requirements. It has also enabled the supply of ethylene to other petrochemical plants in the Volga-Urals region. .

Styrene production totalled 245,000 tons at Nizhnekamsk in 2002, which was 8,500 tons more than in 2001. Other production volumes included 59,000 tons of propylene oxide, 122,000 tons of MEG, and 72,000 tons of neonols. Divnyl production totalled 65,000 tons, or 1,048 tons more than in 2001.

Innovation and restructuring

Nizhnekamskneftekhim reported that it had achieved profits of 242.307 million roubles from rationalisation and innovational activity in 2002. Due to success in the protection of intellectual property Nizhnekamskneftekhim became the owner of 26 patents for inventions in 2002.

Raw materials

YUKOS continues to supply oil to Nizhnekamskneftekhim following reports that the two companies had stopped working together. YUKOS supplies up to 5,000 tons of wide fractions of light hydrocarbons a month and up to 2-3,000 tons of butyl-butadiene and butane-butylene fractions. Right now Nizhnekamskneftekhim is working under long-term agreements for feedstock with several Russian companies and have not broken off relations with any of them.

Surgutneftegaz supplies up to 8,000 tons of technical butane a month to Nizhnekamsk, LUKoil supplies 5,000 tons of isobutene and semi-butane fractions and about 3,000 tons of isopentane fractions a month. Other suppliers include Tatneft, SIBUR, and TNK.

YUKOS held talks to buy a Nizhnekamskneftekhim share package in late October, which it hoped would culminate in the signing of an agreement on long-term cooperation. This would include deliveries of hydrocarbons to the plant in exchange for a share package. Nizhnekamskneftekhim emphatically refused any suggestion of a Russian oil company taking equity ownership and so these talks are now effectively dead, or at least for the time being.

YUKOS is still studying the possibility of reaching an agreement on long-term supplies for Nizhnekamskneftekhim. Nizhnekamskneftekhim shareholders include the Tatarstan State Property Committee with 35.2%, Nizhnekamskneftekhim with 15.63%, Tatar-American investment and Finance with 10.04%, Nikoil Depositary with 7.27%, and Tatknftehiminvest-Holding with 3%.

Polystyrene

The construction of the first part of the polystyrene complex at Nizhnekamsk is scheduled to be completed in the very near future, with the 50,000 tpa unit expected to start production in May.

Up until the end of 2002 the company had spent \$33 million on the project. The final construction costs will require something like 40 million roubles, which equates to around \$1.24 million. By March, the position on marketing will come under review by the company's management. Already some orders are reported to have been received from the domestic market for shipments.

Catalysts

In January 2003 Nizhnekamskneftekhim started the production of catalysts for the production of MTBE and isobutylene at Nizhnekamsk. The volume of catalyst production amounts to 200 tpa, with most of the catalysts sold to 12 large plants in Russia. About 20% goes into the production of MTBE and isobutylene at Nizhnekamsk. The facility for the production of a catalyst for the isobutylene and MTBE synthesis was acquired by the butyl rubber plant of Nizhnekamskneftekhim in January 2003. Formerly this facility was held on lease by the plant.

MTBE

The MTBE plant was started in November last year at Nizhnekamsk and until the end of December had produced 4,500 tons. Part of the product is being sent for export. The decision was taken to build an MTBE plant in 2000 and the cost of equipment was placed at 44 million roubles. The capacity of the plant is 120,000 tpa.

Kazanorgsintez Production (unit-ktons)		
Period	PE Total(HD & LD)	Ethylene
Q1-Q3 2002	262.6	237.1
2001	354.8	337.1
2000	345.2	316.3
1999	345.9	308.3
1998	336.2	258.2

Kazanorgsintez

Kazanorgsintez plans to increase HDPE capacity to beyond 300,000 tpa in the next five years plans, moving up to 220,000 tpa by 2005.

Using new technologies, the company plans to invest \$2.7 million with the aim of increasing

ethylene capacity currently from 335,000 tpa to 520,000 tpa.

Bashkortostan

The turnover of Salavatnefteorgsintez in 2002 totalled 16,172 million roubles, an 8% increase in 2001. The volume of exports in 2002 increased by 37.8% and totalled 5.937 million roubles. The increase in profits by 9.7% to 2,137 million roubles was made due to a reduction in cost prices and an increase in petrochemical production.

Irkutsk

Chemical producers in the Irkutsk area in the period January-November 2002 produced a total of 298,988 tons of plastics and synthetic resins, which was 12% more than in 2001.

Sayanskkhimplast

Sayanskkhimplast in 2002 increased commodity output by 23.8%. However, this is in volume only and not based on margins. Ethylene supplied by YUKOS from Angarsk was set at higher prices than the company had expected. The company has entered very uneasy negotiations with YUKOS concerning the price for hydrocarbon raw materials.

Sayanskkhimplast has started working on a project for the processing of PVC with the purchase of equipment. The aim is to focus on the domestic market which is currently dominated by German and Chinese products. Three years ago Sayanskkhimplast started the production of plasticizers used in the manufacture of shoes and medical equipment.

Usolyekhimprom

The tender to sell the state-owned equity stake of Usolyekhimprom (26.81% of the chartered capital) will be conducted on 29 January. A total of 379,313,113 ordinary shares of 1 rouble each will be up for sale at the auction. The starting equity stake price is 46.5 million roubles. The potential buyers of the state-owned shares may include the existing shareholders of Usolyekhimprom. These include the investment company Region, Lester Venture Holdings Ltd and Navigator-Alliance LLC.

Usolyekhimprom creditors' meeting is planned for February 2003 and in the meantime Usolyekhimprom is continuing to accept demands and claims of the creditors. The external supervision order was imposed according to the arbitrary court of the Irkutsk region decision of 27 November 2002. The next court proceedings are to be held on 20 March 2003.

Production at Angarsk petrochemical complex			
Product	Q1-Q3 02	Q1-Q3 01	2001
Methanol	16,5	18,3	21,5
Ethylene	134,4	131,4	184,5
Propylene	69,2	74,9	80,1
Benzene	35,8	38,8	53,9
Styrene	28,7	26,7	37,7
LDPE	53,7	52,2	72,2

Angarsk Petrochemical Company

YUKOS is looking into the possibility of setting up chemical production at the Angarsk Petrochemical Company in Irkutsk region.

The head of YUKOS has said that developing chemical and petrochemical production is a priority at the Angarsk plant, in which YUKOS holds a 72.9% stake. The main problem facing Angarsk is the question of

geography, being located over 5,000 km by rail from Moscow.

China is naturally obviously a more logical market destination for products from Angarsk, but how long export opportunities will remain in place is a question that needs to be assessed. As the following production numbers indicate operating rates a fairly stable with most of the units running at their maximum capability.

Dzerzhinsk

Dzerzhinsk Orgsteklo

Dzerzhinsk Orgsteklo achieved a turnover of 929.5 million roubles in 2002, which exceeded the output of 2001 by 15 million roubles. In 2002, the company produced 334.95 tons of cyanurichloride (21% higher than 2001), 13,334 tons of methyl methacrylate (1.2% down), 5,693 tons of organic glass (6% up), 4,808 tons of dacryl (16% up), 2,320 tons of additives (32% down). The reduction the output volumes in some products was caused by losses resulting from the process flow used at the enterprise in the first quarter of 2002, and also the unexpected price hike for acetone. .

The business plan of the enterprise lists the production of methyl methacrylate and additives among the priority directions for 2003.

Product News

PVC

Sayanskkhimplast increased PVC production in the first eleven months of 2002 by 14.5% over 2001 to reach 195,661 tons. The increase in Russian PVC production in 2002 was due in part to improved global demand. For the whole of 2002 Sayanskkhimplast» exported 206,000 tons of PVC, which was 9.2% more than in 2001. Deliveries on the Russian market increased by 38%, although their total amount is still insignificant. Demand from Sayanskkhimplast for the domestic market has been helped by a joint Russian-German enterprise in Novosibirsk.

The Russian government commission has decided to abolish export duties for PVC and mineral fertilisers. In April last year, the government reduced export duties on PVC to 3%.

Plastkard at Volgograd has bought a 19.88% share in Polygran at Tver. The largest shareholders in Polgran are the EBRD with 39.78%. Polygran produces thermoplastic granules used in the production of shoes and cables.

Styrene

Nizhnekamskneftekhim, the major Russian styrene producer, will have less product available this year with the start-up of the new polystyrene plant. Until now the company has exported around 90% of its production, but that number will now fall with the first 50,000 tpa polystyrene reactor.

Styrene export contracts have been already concluded for the whole of 2003. Deals have been made with prepayment and the prices boosted compared to the last months of 2002.

At present, SIBUR-Khimprom at Perm has free styrene inventories available to supply the domestic market at the price of 21,000 roubles/ton including VAT. The Russian polystyrene market picture is slightly volatile at the moment and prices are on the way up a result of the styrene price increase and Middle East instability.

Polystyrene of Omsk has increased its prices for all its polystyrene brands by 1,300 roubles per ton starting from 3 January 2003. Salavatnefteorgsintez revised its prices starting from 1 January 2003.

Caprolactam

China's Ministry of Foreign Trade has decided to increase duties on imports of caprolactam from 5.4% possibly as high as 38%. The antidumping investigation over imports of caprolactam from Russia was initiated by Sinochem in December, 2001. In 2001, Russia exported to China about 150,000 tons of caprolactam and last year was similar. Imports from Japan, Belgium, Germany and Holland are also affected.

The Russian caprolactam sector is export-oriented one and the share of the Russian caprolactam export to China amounts about 75% of its total production output (about 215,000 tons in 2002), and now the sales perspectives are vague. At the moment, it is hard to predict the producers' actions, but there is still a possibility of changing this decision. The final verdict is to be made on 7 July 2003.

Starting from 1 July 2003, products originating from the five nominated countries, including Russia, will have to pay cash deposits to the Chinese customs in line with the respective dumping rate, ranging from 5% to 38%. China's Ministry of Foreign Trade decided this week that substantial damage had been sustained by Chinese industry by caprolactam imports. The duty amount for Russian producers is following: 14% of the customs declared value for product from KuibyshevAzot, 6% from Azot Kemerovo, and 28% from Shchekinoazot.

Methanol

In the Russian Far East the new methanol terminal at the Vostochny port at Primorski Krai has been completed. With commissioning a complex they will provide transit faculties for 300-400,000 tpa of methanol. Most of this product is expected to come from Tomsk.

In total, the terminal will operate with eight tanks of methanol capacity. The methanol terminal is one of the largest investment projects of Vostochny port. The capital investments in construction were above \$6 million. It will be the first such terminal of this kind in Russia with the aim focused on consumers in south-east Asia.

Russia independent natural gas producer Ditgas, which entered the Russian market in 1998, is focused on moving into methanol production, LNG or diesel fuel, and export the fluids by sea. The company has allegedly struck a deal with Russian designers and manufacturers of small energo-chemical complexes, i.e., locally based facilities for the production of methanol, di-methyl-ether and other fluids from natural gas.

One of the smaller Russian methanol producers Novocherkassk Plant of Synthetic Products (NPSP) has started to prepare for the privatisation, which is planned to accomplish in March 2003. The major steps on the way to privatisation are handing over the social and cultural facilities to the municipal administration and paying a debt of the personnel wages. Other measures aimed at reducing production costs.

Phenol

New rates of export duties for a number of products exported from Russia outside the CIS have been approved by the government. In accordance with this document, the export duty for phenol, previously set at 6.5%, has been cancelled as from 20 February 2003.

Russian Phenol Production (unit-ktons)		
Producer	Q1-Q3 02	Q1-Q3 01
Ufaorgsintez	39.5	46.2
Kazanorgsintez	25.1	25.1
Saratovnefteorgsintez	20.4	24.7
Etanol	22.7	16.1
Omsk Kaucuk	4.2	3.6
Total	111.9	115.7

At present, Russian phenol prices are very stable with some equilibrium between supply and demand. Phenol prices are broadly in the range of 14,000 roubles per ton, pre-VAT. Acetone prices are more in the range of 13,000-13,500 roubles per ton.

Ukraine

(Ukr hryvnia Jan 27, \$1= 5.7900, €1= 4.716035)

Oriana

The Ivano-Frankovsk Court has started bankruptcy actions for Oriana at Kalush, the result of which should be known by 12 February. The main creditors' group includes the Lvov Railroad Company, the Ivano-Frankovsk regional administration and Lukor, the jv that was formed in December 2000 by LUKoil-Neftekhim and Oriana.

At present, 99.99% of Oriana's shares belong to the State and are controlled by the Ivano-Frankovsk regional administration. Oriana consists of eight independent companies with participation of other co-owners, including the Lukor jv.

If Oriana is declared bankrupt shares of all of eight subsidiaries could be sold, thus resulting in a significant redistribution of ownership. LUKoil can redeem its 50% share from Oriana in the Lukor joint venture if it so wishes. In the period January-September 2001, LUKoil-Neftekhim invested in 92.2 million hryvnia in Lukor (around \$16.6 million), which was directed largely to the reconstruction of the olefin and chlorine units.

The bankruptcy was brought by the Ukrainian bank AKB Privatbank on 10 January. The total debts of Oriana are more than \$3 million, of which around \$0.9 million is owed to AKB Privatbank. Lukor is owed even more, up to \$1.2 million. Currently, Oriana is negotiating with creditors for a settlement.

Other news

In 2002, Azot at Cherkassy increased output of ammonium nitrate by 57.2% to 822,000 tons, while production of urea increased by 9.3% to 677,700 tons. Simultaneously, the company reported a 0.5% upturn in its output of ammonia and a 32.3% increase in caprolactam. The increase in output was due to better demand and market expansion. In total, Azot's production totalled 650.03 million hryvnia (\$122 million), with the share of exports accounting for 65% of sales.

Stirol at Gorlovka produced 1.25 million tons of ammonia in 2002, which represents a 1.1% fall vs 2001, 743,800 tons of urea (down 10.8%), and 6,590 tons of polystyrene (down 71.8%). The downward trends were due to partly weaker markets in the first half of the year, but also there were problems in securing polystyrene monomer. For other products Stirol reported 18.6% and 0.7% increases in the output of ammonium nitrate (up to 534,035 tons) and sodium nitrate (up to 5,325 tons).

Crimean Soda increased soda ash output by 0.9% to 529,000 tons in 2002, having exported over 40% of the production. Lisichansk Soda, Ukraine's second largest producer of soda ash, produced around 120,000 tons

of ash soda last year, while directing nearly 20,000 tons for export. The company's plans for the current year stipulate for a 30% increase of export activity.

Azot Severodonetsk

A number of options are being reviewed by Azot for the restart of the LDPE facilities at Severodonetsk, including the purchase of ethylene from merchant sources from other petrochemical plants in the former USSR. The polyethylene capacity is 220,000 tpa, based on four lines, constructed by Salzgitter in 1980. The equipment, including the reactor and other parts of the plant, is in surprisingly good shape despite the fact it has not worked for seven years.

This is the date when ethylene production stopped at the Lisichansk refinery where the cracker is connected to Azot by a 36 km pipeline. It is possible to restart the cracker with only minimal start-up costs and this possibility was being considered by SIBUR until it ran into its own problems last year. SIBUR seems unlikely to go ahead now but this option remains open to other potential investors.

What might prove a better long term solution is a revamp of the cracker, including the furnaces, etc. This would be the project that would allow three of the four LDPE lines to restart, possibly keeping one line in reserve. In the meantime, Azot is keen to start one line of 55,000 tpa, which could be restarted relatively quickly, with ethylene supplied by railcar. Approval has been given by the Ukrainian government to set up a JV subsidiary with foreign involvement based on the polyethylene unit.

However, the cracker itself is the key to the long term operation of LDPE at Severodonetsk and Linos, which owns the plant, has indicated that there would be no objection to a forming JV.

Visit to Severodonetsk/Lisichansk

A visit was undertaken at the end of January and a report is being now being written on the status and prospects of Azot at Severodonetsk and Linos and Lisichansk.. If you are interested in receiving details of how to obtain the report please send an e-mail to enquiries@cirec.net.

Belarus

The Belarus government has approved the sale of shares in petrochemical companies, but according to the programme the enterprises can be privatised only for money.

Belarus Chemical Production (unit-ktons)		
Product	Jan-Aug 02	Jan-Aug 01
Nitrogen Fertiliser	456	415
Phosphate Fertiliser	54	64
Potassium Fertiliser	2,732	2,635
Plastics & Resins	302.5	323.5
Chemical Fibres	122	141

Competition will be carried out for the sale of shares in five enterprises, including Naftan, Polymir, Azot, and the Khimvolokhno complexes at Mogilev and at Sverdlovsk. One of conditions of sale is the preservation of control share holdings.

The Belarussian polyethylene producer Polymir at Novopolotsk reports operating rates in the 80% range. The company relies in part on credit from domestic banks to provide naphtha supplies. For the first nine months of 2002 Polymir produced 81,552 tons of LDPE and 43,005 tons of acrylonitrile. One of the main events of the company last year was the start-up of a new cracking furnace of that allowed a reduction in feedstock and energy consumption for the production of polyethylene.

Transcaucasus

The Georgian president has now signed the decree to hand over the shares of Azot at Rustavi directly to Itera. The Russian company has acquired 90% of Azot equity for \$500,000.

According to its business plan Itera will invest \$12 million into the restoration of Azot in the next three years. It will also ensure that the average company employee salary would grow up \$150 per month and has agreed to repay all the debts of Azot.

Kazakhstan

(Kazakh Tenge Jan 27, \$1 = 155.08, €1= 168.34)

The Kazakh government plans to raise \$2 billion for the development of the Karachaganak gas condensate field between 2003 and 2008. A special working group has started to draft the project. The gas project is to be

implemented as part of the third phase of the Karachaganak development and calls for the construction of a gas processing plant and petrochemical enterprises.

Kazakh Chemical Production (unit-tons)		
Product	Q1/Q2 02	2001
Chromium Anhydride	5,831	16,061
Chromium Monoxide	6,708	18,087
Chrome Tanning Agents	7,759	17,045
Sodium Bichromate	22,339	59,677
Polystyrene	6,657	912
Liquid Chlorine	362	828

Foreign investors, which are shareholders of the Karachaganak Integrated Organization (KIO), will provide 40% of the funds. KIO is owned by the BG Group and ENI (32.5% each), ChevronTexaco (20%) and LUKoil (15%). Karachaganak contains more than 1.2 billion tons of oil and 1.35 billion cubic metres of gas.

The construction of an energy-related infrastructure at Karachaganak will make Kazakhstan less dependent on the Orenburg gas processing plant in Russia, which is currently processing production from Karachaganak. The development phase, from 1998 to 2003, will cost \$3.5 billion and involves raising liquid hydrocarbon production to 7 million tpa initially. A plant will have to be built to process the hydrocarbons, as will a 240-MW power station and other facilities. In the third phase, to 2008, gas condensate production will be increased to 12 million tpa before full projected capacity is achieved in the fourth and final phase from 2009. In 2002, KIO produced around 5 million tons of condensate and 4.7 billion cubic metres of gas at Karachaganak.

Taiwan has offered Kazakhstan co-operation in the development of the gas and petrochemical industry through the Chinese Petroleum Corp. Taiwan is keen to utilise Central Asia's hydrocarbon resources for its own petrochemical industry.

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