

EAST Europe & C.I.S CHEMICALS BRIEFING

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Some of the main features in the May 2000 issue

- At the start of April MOL stated that it had signed an agreement to buy a stake of up to 36.2% in Slovnaft, which can eventually be increased to over 50%. MOL said it will pay around \$262 million for the initial stake and expects the acquisition to become effective from 2001.
- In Q1 2000 BorsodChem exceeded sales' revenues compared to Q1 1999 by 47.5%. Operating profits increased by 125% to Ft 3,897 million and net income by 103.4%. VCM and MDI capacities that were expanded during last year increased output by 9% and 28% respectively.
- The Czech Ministry of Industry and Trade stated at the CenChem 2000 congress, (Prague April 11-13) that negotiations were completed for the sale of Moravske chemicke zavody a.s. (MCHZ) at Ostrava to BorsodChem. The reports from BorsodChem are that it has bought 97.5% of MCHZ, which one of its biggest raw material suppliers. MCHZ supplies aniline to BorsodChem for the production of MDI.
- Neftochim resumed refinery operations at Bourgas on April 10, a month after it was shut for maintenance and modernisation. The LUKoil Neftochim Bourgas plant underwent an \$8 million refit, the first in since it was started in the 1960s. The turnaround is intended to revamp installations to improve product quality and reduce air pollution.
- The Romanian acrylic fibre producer Melana at Savinesti recently started negotiations with the representatives of the Bank Assets Capitalization Agency (AVAB) for the redistribution of debts. The negotiations are extremely important and an approval could mean that talks of ownership are started with the national oil company Petrom.
- Solvay-Sodi is still in negotiations with the Bulgarian government regarding a 77% stake in the Devnya Thermoelectric Power Plant. The negotiations have been underway for a year. The soda ash plant is the power station's main consumer of steam.
- Tobolsk Petrochemical Combine in the Tyumen oblast has restarted its project on the new halogenated butyl rubber plant under the joint venture Sovbutital. The project has been constructed on a stop-start basis due to a lack of finance, but the plan now is to complete the project.
- The Russian Ministry of the Economy has forecast a 9% increase in Russian chemical output in 2000 over 1999, a more modest increase than achieved last year. In 1999, physical output exceeded 1998 volumes by 21.7% and 1997 volumes by 13%. In value terms, output reached 177.9 billion roubles with the rouble starting the year at just over 20 to the dollar and ending the year at over 26 to the dollar.
- LUKoil has been making strong efforts in recent weeks to acquire Norsis's petrochemical assets at Kstovo. Since the start of this year the Kstovo petrochemical facilities have been the focus of active interest from both Gazprom subsidiary SIBUR and LUKoil, and the struggle is intensifying.
- The Bashkortostan Cabinet of Ministers is considering an expansion of the 100,000 tpa polypropylene plant run by Bashneftekhim on the Ufaorgsintez site. The plant is currently running at full capacity, producing around 9,000 tons per month. Domestic demand for polypropylene is strong, and also a polypropylene compounding unit is planned for construction at Ufa.
- OAO "Sayanskkhimprom" in the Irkutsk oblast produced 40,300 tons of PVC in the first quarter of 2000 compared to 33,900 tons in the same period last year. Caustic soda production increased from 22,950 tons in the first quarter last year to 22,950 tons.
- Ufakhimprom is attempting to attract funds for the support of the revamp of the bisphenol A plant at Ufa. The plant at present has a capacity of 50,000 tpa, although in principle it could run at 60,000 tpa. The main problem facing current operations is a shortage of raw materials.

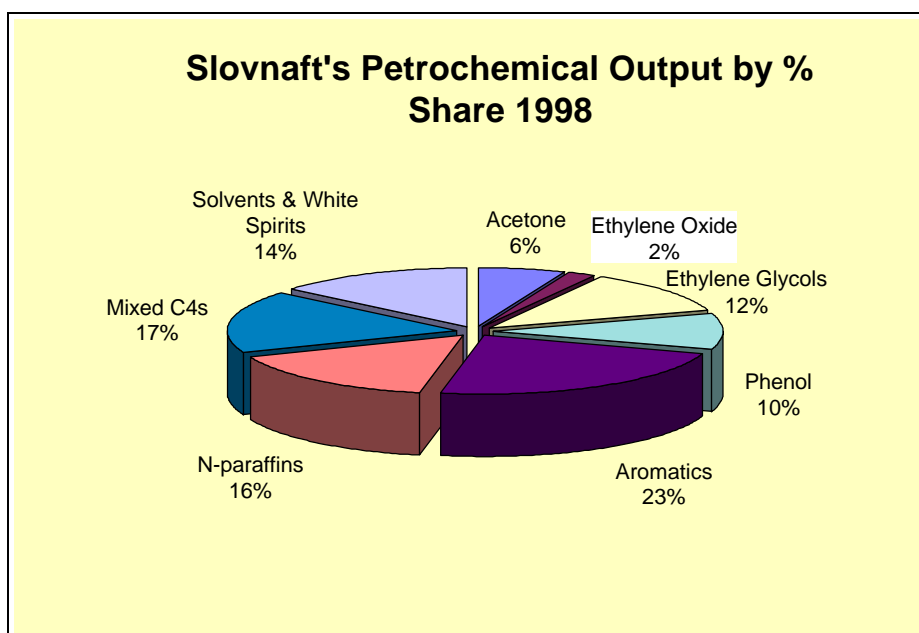
CENTRAL EUROPE

Oil refining/petrochemicals

At the start of April MOL stated that it had signed an agreement to buy a stake of 36.2% in Slovnaft, which can eventually be increased to over 50%. MOL said it will pay around \$262 million for the initial stake and expects the acquisition to become effective from 2001. The acquisition, which is Central Europe's first major intra-regional cross border transaction, will be executed via a \$150 million increase in Slovnaft's equity and the purchase of existing shares.

Reasons for interest in Slovnaft

MOL's interest in Slovnaft is based primarily on two criteria. This consists of a strategic fit in relation to Central Europe, and a product fit in relation to additional refining capacity and entry into olefins and polyolefins. The Bratislava refinery has a capacity of 110,000 barrels per day, with a 3 year large scale \$530 million upgrade having been completed not so long ago. With 807 gas stations in the region, the two companies together will have an estimated 36% share of the retail market in Hungary, 38% in Slovakia, 3% in Romania and 2% in the Czech Republic. The move into petrochemicals is considered probably the least important of the reasons for the purchase, but is still a major factor in MOL's strategy and could conceivably become more important at a later stage. Slovnaft's composition of petrochemical production, based on 1998, is shown in the diagram below.



Implications of MOL's acquisition of Slovnaft

There is a strong feeling in the marketplace that MOL could be paying too much for Slovnaft. Raising finance will be a major challenge. In late March MOL decided to sell its minority 21.4% stake in the Dunastyr joint venture to Enichem, and it is expected that it will also try to sell its 19.6% stake in TVK. MOL has stated that it will take out a \$300 million 364-day bridged loan facility to finance the Slovnaft transaction. J P Morgan will provide the loan, likely to be replaced by a term loan facility later. After eight financial quarters from subscription, MOL will have the option to buy further shares in Slovnaft to gain at least 50%, plus one vote of the company's share capital.

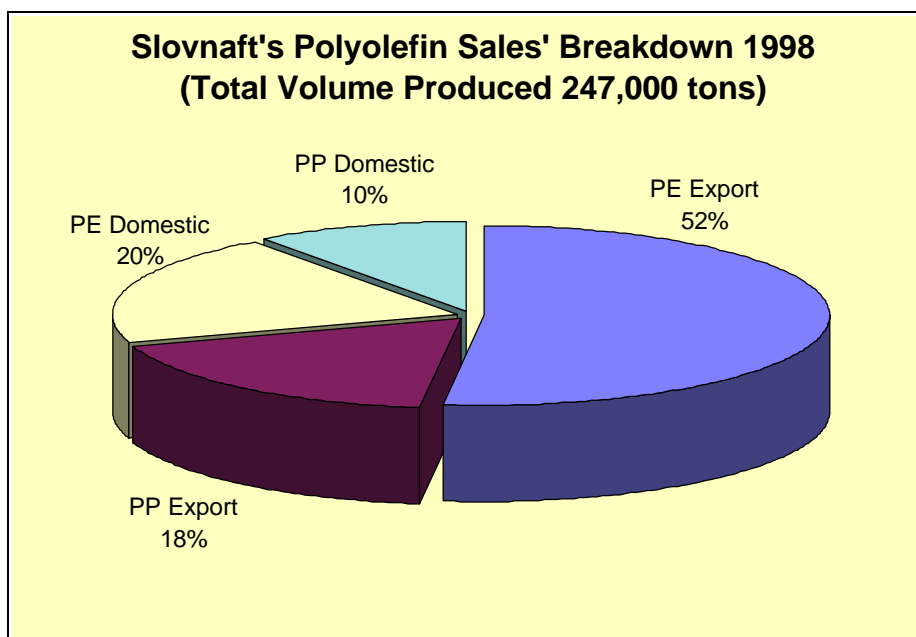
After MOL exercises its option, it will be able to control Slovnaft. The acquisition is subject to anti-trust approvals and is expected to close by the end of the third quarter of 2000. Slovnaft posted sales of Sk 43.775 billion and a net loss of Sk 2.484 billion in 1999. Together with Slovnaft's Bratislava refinery MOL will control a combined refining capacity of 330,000 barrels/day. Aside its modern status pluses for the Bratislava refinery include direct access to crude through Druzhba and Adria pipelines. MOL and Slovnaft will have an estimated 36% retail market share in Hungary and 38% in Slovakia.

Further consolidation prospects in Central Europe

MOL has stated that the purchase of a 36.2% stake in Slovnaft a.s. does not herald more imminent expansion in the region, although there are contrary views that suggest the company has other targets. MOL will pay around \$262 million for the 36.2% tranche, executed mainly via a \$150 million increase in Slovnaft's equity. Slovnaft has said MOL would also buy an unspecified number of shares directly from Slovnaft's management owned companies, Slovintegra and Slovbená, and also on the open market. MOL wants the EBRD to retain its shareholding in Slovnaft, which amounts to a 10.5% stake. Slovintegra holds 50.68% in

Slovnaft, Slovvena has 5.81%, and the state gas company Slovensky Plynarensky Priemysel has 5.68% with the rest held by foreign institutions and small shareholders.

Since late 1999 MOL has been a minority shareholder in TVK, but its failure to extend its influence to board room involvement gave no influence over TVK's activities. Slovnaft therefore provides a way of securing a route into polyolefins, although the technology at Bratislava is in need of modernisation. In 1998, Slovnaft produced a total of 247,000 tons of polyolefins which is similar to volumes produced by Chemopetrol and PKN.



The next target for MOL and its strongest rival in the region OMV AG, is expected to be INA d.d., which is fully owned by the Croatian government. MOL formerly held the right to negotiate with the Croatian government, but the exclusive right expired with no resolution. Negotiations broke down before Croatian elections last December, which allowed INA to start talks with other contenders.

OMV is known to being taking a minority shareholding position in MOL which poses a number of possible future scenarios. OMV sees Central and East Europe as a key region in its development plans over the next few years. The goal is to introduce more gasoline stations in order that the company can sell the entire output of the Schwechat and Burghausen refineries through its own network by 2002 to 2003.

OMV is market leader in gasoline retailing in Central Europe, but is gearing up for tougher competition from regional players after MOL's Slovnaft announcement. OMV had joined the race for Slovnaft, identifying potential synergies from combining its Schwechat operations with Bratislava refinery 50 km away, but bid cautiously. OMV's view was that Slovnaft is essentially a refinery and has less market access than its own capacity and therefore was not at the core of their strategy. The MOL-Slovnaft deal will not interfere with OMV's plans to increase Central European sales by 40% over the next three years.

OMV is also open to consolidation in the Central European oil industry, although the company stresses mergers and acquisitions need to take place within the OMV's long term strategy. Although conditions can change, the most ominous prospect for competitors is that MOL and OMV could eventually merge.

At present, OMV has over 400 gasoline stations in the region, giving it a market share of 25% in Slovenia, 14% in Slovakia, 11% in Hungary and 9% in the Czech Republic. In 1999, OMV sold 496,000 tons of oil products in Hungary, part of which was purchased from MOL, making it the third largest gasoline retailer after MOL and Royal Dutch/Shell. It is the only foreign player in Croatia, with a market share of 6% and has 3% in Bulgaria, where it owns a stake in local retailer Petrol.

OMV wants to take 10% of the Bulgarian and Romanian markets by 2002 by building on greenfield sites. However, OMV is not interested in taking part in a planned capital increase in the Romanian oil company SNP Petrom. OMV may be interested in closer cooperation with INA which is earmarked for privatisation.

There are some observers who remain skeptical that MOL has sufficient financial resources for major new acquisitions after Slovnaft. MOL says its debt-to-equity ratio will stay within the publicly announced 40% target. But, as pointed out, MOL will have to spend a lot of finance improving Slovnaft. MOL will hope to sell off non-core businesses, hoping to raise a further \$150 million by the end of 2001.

There is also the view that the 25% stake the Hungarian government currently holds in MOL limits the company's growth opportunities. MOL cannot adjust gas prices freely owing to the state's priority of keeping down inflation, and that imposes limitations on MOL's profitability from gas sales. Thus, MOL may even sell its gas business.

Poland

Shareholders in Polski Koncern Naftowy SA agreed during a general shareholders' meeting at the start of April to change the company's name to Polski Koncern Naftowy ORLEN SA. ORLEN is a cross between orzel, meaning eagle, Poland's national symbol, and energia, meaning energy. The company will start using the new name after being registered officially at a court in Plock, which should happen in a few weeks. PKN is going to buy the North Sea oil fields from Statoil. This will give PKN access to cheaper oil and allow the company to lower the prices of its products as early as the end of this year. The purchase will be co-financed by Abu Dhabi Commercial Bank in the United Arab Emirates (UAE). Under the contract PKN will buy a share package of Abu Dhabi Commercial Bank.

Central Europe-currencies April 17th 2000

Country	Currency	\$1=	EURO =
Czech Republic	Koruna	38.1470	36.4724
Hungary	Forint	269.715	257.875
Poland	Zloty	4.2300	4.0440
Slovakia	Koruna	43.4510	41.5425

News that PKN lost out to MOL in a bid for Slovnaft may result in direct retail competition from the two companies in southern Poland. PKN wanted to use Slovnaft's refinery in Bratislava to supply its domestic southern market. It also wanted to lock out regional rivals eyeing the southern parts of the country.

In response PKN is busily expanding its retail coverage, developing its logistics' operations and increasing its refinery capacity. Total investment from the start of 1999 to the end of 2000 alone will be approximately PLN 3.5 billion. PKN was already fighting off the competition before MOL and Slovnaft teamed up, but mainly in western Poland. PKN currently runs around 2,000 filling stations nationwide, compared to the approximately 500 that are foreign owned. This year PKN plans to refurbish 230 stations and build an extra 19 outlets. A further 100 stations are under construction for franchisees. PKN had already said after its initial public offering (IPO) at the end of last year that it planned to build 300 new stations in unspecified locations by 2005 as part of an overall PLN 7 billion investment programme to bolster its dominant position.

PKN intends to increase its refining capacity at Plock by 6.7% to 12.8 million tpa by the end of 2000. PKN has also made savings in centralizing its financial management by reigning in regional depots and cutting tax burdens. Plans for petrochemical expansions are expected to be announced in the near future, including ethylene and propylene. According to Deutsche Bank, last year PKN achieved a revenue of PLN 10.86 billion, down 4% on 1998. However, net profit is expected to have risen 2.54% to PLN 806 million. This year Deutsche Bank expects PKN to make sales of PLN 14.7 billion, with earnings of PLN 893 million.

Czech Republic

At the recent CenChem 2000 congress in Prague plans were reaffirmed for the sell-off of the 63% state share in Unipetrol. The sell-off is expected to take place in 2001. The procedure is being worked out between the government and Unipetrol, although at this stage it is too early to talk about dates or to even speculate about the potential bidders for this stake. The government's first priority is to sell a 70% stake in the Paramo refinery at Pardubice. A number of companies have bid for this company, including LUKoil. However, there are question marks over why LUKoil would want to purchase a small scale refinery. Paramo posted a loss of Kc 85.1 million last year, compared to a 1998 profit of Kc 122 million, on revenues of Kc 4.6 billion, up from Kc 4 billion. The refinery, which invested Kc 169 million last year, plans to cover the loss with retained profits from previous years.

Chemopetrol will close the olefin cracker at Litvinov for a 50 day shutdown in August and September this year partly in preparation for the expansion of ethylene and propylene capacity which is scheduled to take place in the next few years. During this period derivative plants in the Czech Republic, at Litvinov and Neratovice, will be supplied with ethylene from storage facilities and supplemented to some extent by deliveries from BSL in Germany. For the time being Spolana is producing PVC at reasonable levels of capacity. For other products large volumes of caprolactam are being exported to Taiwan which has been taking place since about the start of 1999. Spolana is also known to be selling excess alpha olefins to South America through Internet trading sources.

Unipetrol posted an unconsolidated audited 1999 profit of Kc 944 million against a consolidated after-tax profit of Kc 1.81 billion in 1998. Unipetrol anticipates continued expansion of its business and has forecasted that by 2002 it could see gross profits climb to around Kc 6.7 billion on sales approaching Kc 80 billion.

Of the Unipetrol subsidiaries Chemopetrol posted a 1999 audited loss of Kc 651 million on sales of Kc 17.7 billion, measured against a Kc 288 million profit in 1998. Kaucuk posted an audited 1999 loss of Kc 89.5

million on revenues of Kc 5.9 billion after a profitable 1998. Losses were incurred mostly in the first half of 1999, with petrochemical margins at rock bottom levels, but there was an improvement in the second half and this year is expected to see a return to profitability. In particular, the recent abatement in crude prices promises a much better few months for petrochemical producers in Central Europe.

PVC Operations at BorsodChem's production units in the first quarter were characterised by a high level of capacity utilisation, with raw materials such as ethylene and VCM in good supply. Demand was also very good in the PVC sector during the winter months. PVC prices have been increasing over the past few months helping to boost producer profits.

BorsodChem's Production (unit-kilo tons)			
<i>Period</i>	<i>MDI</i>	<i>PVC</i>	<i>VCM</i>
Q1 1999	10,049	64,022	50,480
Q1 2000	12,860	70,184	55,010
Change (%)	28.0	9.6	9.0

As a result of supply side developments, BorsodChem exceeded sales' revenues in Q1 2000 compared to Q1 1999 by 47.5%. Operating profits increased by 125% to Ft 3,897 million and net income by 103.4%. VCM and MDI capacities were expanded during 1999 facilitated an increase in output 9% and 28% respectively. With net profits of Ft 8.25 billion in 1999, BorsodChem expects to increase profits to Ft 11.99 billion this

year, according to a report by Credit Suisse First Boston Ltd. Another analysis by Procent Investment Rt forecasts an even higher net profit, at Ft 14.4 billion for 2000.

BorsodChem's Product Income (Forints)		
As of Apr 17 \$1 = Ft 269.871, 1 euro = Ft 257.875		
<i>Product</i>	<i>Q1-99 Ft Million</i>	<i>Q1 00 Ft Million</i>
PVC resin		
Domestic	762.9	1,606.6
Export	5,197.1	9,972.8
Subtotal	5,960.0	11,579.5
PVC compounds		
Domestic	512.7	521.0
Export	466.9	534.8
Subtotal	979.6	1,055.8
MDI products		
Domestic	32.2	39.0
Export	3,522.6	3,805.3
Subtotal	3,554.8	3,844.3
Caustic soda		
Domestic	722.1	558.2
Export	543.5	561.4
Subtotal	1,265.6	1,119.6
Plastic semi-finished and finished products		
Domestic	677.4	875.0
Export	762.8	1,028.2
Subtotal	1,440.2	1,903.2
Other products		
Domestic	986.2	1,180.9
Export	1,343.8	2,217.6
Subtotal	2,330.0	3,398.5
Total sales	15,530.2	22,900.9
Domestic sales	3,693.5	4,780.8
Export sales	11,836.7	18,120.1

The main determinant on profit margins for BorsodChem is the difference between PVC and ethylene prices. Although both products saw increases in the first quarter PVC numbers rose more than ethylene. In the first quarter this year the price of ethylene rose by 5.4% to DM1,134 per ton, but the list price of PVC resin increased 6.3% to DM1,680 per ton.

The share of PVC resin in BorsodChem's total sales increased to 50.5% in Q1 2000 from 38.4% in Q1 1999. BorsodChem's sold volume of PVC resin decreased by 4.1%, while sales' revenues rose by 94.3%. Despite lower volumes of PVC compound sales, revenue grew by 7.8% on the back of high PVC prices.

Sales revenues of other products went up by 45.9%. Growth is being experienced in sales' revenues of polystyrene, ammonia, hydrochloric acid, in addition to BorsodChem's trading subsidiaries. 79.1% of BorsodChem's sales' revenues in the first quarter of 2000 were derived from exports, 2.9% higher than in the same period last year.

The geographical breakdown of the company's sales was defined in Q1 2000 as the combined region of domestic, Central and East Europe 43.3 %, West Europe 55.1%, and other regions 1.6 %.

Ownership changes The Czech Ministry of Industry and Trade stated at the CenChem 2000 congress, (Prague April 11-13) that negotiations have been completed for the sale of Moravske chemicke zavody a.s. (MCHZ) at Ostrava to BorsodChem. The reports from BorsodChem are that it has bought 97.5% of MCHZ, which one of its biggest raw material suppliers. MCHZ supplies aniline to BorsodChem for the production of MDI. This acquisition has been expected to happen for the past twelve months.

The new company has been renamed BorsodChem-MCHZ s.r.o. BorsodChem stated four months ago that it had started formative talks on buying the aniline producer, to be integrated with the MDI plant in Hungary. AliaChem recently signed a contract passing over control of subsidiary MCHZ to BorsodChem, as part of a venture that will combine production of aniline and polyurethane. The deal is reportedly worth \$55 million.

The new company at Ostrava will be integrated into BorsodChem's group holding structure. At the same time BorsodChem has been rationalising production and sales' activities, with the transfer of pipe and other

profile producing activities of Grafol Kft. to BC-Ablakprofil Kft. Certain side activities of Grafol Kft. (production of cosmetics, warehouse sales) have been sold.

The sale of MCHZ was previously believed to be an uphill battle for BorsodChem because of local opposition to the transaction, largely stemming from the bad financial situation of AliaChem's majority owner Chemapol. Talks with Chemapol actually started two years ago, but the negotiations only became intensive in the past six months according to BorsodChem. The hardest part of the process was to convince Chemapol's nine creditor banks and bankruptcy administrator that selling off AliaChem in separate parts was a sound option. BorsodChem will finance the sale from its cash flow and from a Euro100 million syndicated loan announced last year. Part of the sale price will cover MCHZ's liabilities, but the majority will be paid in cash.

The acquisition was a cheaper and faster alternative for BorsodChem than building its own aniline producing facility in Hungary. There have been plans under review to jointly build an aniline facility with MOL, but the purchase effectively ends this idea. It could have taken three years before the project in Hungary started operation which would not have been to BorsodChem's advantage.

The existing raw supply arrangements between Agrofert subsidiary Deza a.s and MCHZ will continue. BorsodChem has agreed to buy benzene for MCHZ's aniline production from Deza, which is located only 30 km from MCHZ's facilities in Ostrava. MCHZ purchases around 50,000 tpa of benzene from Deza with an approximate value of \$15 million. Deza's major shareholder, the Agrofert group, posted first quarter sales of over Kc 9 billion, up 62% year on year.

The purchase of MCHZ is seen as an essential move for BorsodChem, as the company is planning to increase its MDI capacity to 60,000 tpa from the current 51,000 tpa by the end of this year, and to 110,000 tpa within three years. Whilst there are some question marks over the MOL purchase of Slovnaft this acquisition is seen as very favorable for BorsodChem due to the relatively low price of MCHZ. The aniline facilities represent a logical and potentially profitable fit.

Also in the Czech Republic Eastman Chemical, which recently acquired almost 74% in Chemicke zavody Sokolov (CHZ), has announced its mandatory buy-out offering CHZS minority shareholders Kc 112 a share, one-tenth of the nominal value. Eastman derived the figure from the price it paid the National Property Fund for the stake along with the Kc 1.12 billion it paid Konsolidacni Banka for its claim against CHZS.

Restructuring TVK is currently selling a 40% stake in the carbon black joint venture Columbian Carbon, which could yield the company up to Ft 8 billion. TVK has also said that it is to sell its 74% stake in the plastics' processor Unterland AG of Austria. Unterland has a market share of 56% in the Austrian market and it is rated as the sixth largest manufacturer of plastic films in Europe. TVK intends to sell Unterland for strategic reasons, as it wants to concentrate exclusively on petrochemicals. There are several potential buyers including Austrian companies TVK reports. TVK invested As (Austrian schillings) 84 million in Unterland to install new technology which will increase production to 12,963 tons this year from 8,959 tons in 1999.

Company news The sell-off of MCHZ may not be the last divestiture conducted by AliaChem as the plastic processing divisions may also be bought by other investors. AliaChem's main focus is to concentrate on its specialty chemical range at Pardubice. The group holding has undergone much change in the past year which contributed partly to AliaChem posting a 19% increase (against Q1 1999) in first quarter revenues to Kc 2.78 billion.

Dwory at Oswiecim in southern Poland expects its revenue to total around 30% higher for 2000 than 1999, due in part to higher prices but mostly due to the opening of a new production line of hard polystyrene. Dwory intends to export 50% of the production from the new unit. Moreover, the company is refocusing its product line to direct its efforts toward growing industries. Dwory in 1999 achieved export sales of PLN 153 million, up 1.3% from 1998.

In Slovenia a company called Esot at Celje is seeking suppliers of expanded polystyrene for applications in the construction industry. Enquiries to Mr Vladimir Blatnik, Marketing, Esot doo, Gledalska 2, Celje 3000, Slovenia, Tel +386 63 484349, Fax +386 63 484356, E-mail: esot@siol.net.

Forthcoming events

14th International Congress of Chemical and Process Engineering **CHISA 2000**, 27-31 August 2000, Prague, Czech Republic. **CHISA 2000** will act as the 617th event of the European Federation of Chemical Engineering. Further details about the event can be obtained from the website www.chisa.cz, or directly by e-mail to chisa@csvts.cz. CHISA 2000, Novotneho Lavka 5, 116 68 Praha 1, Czech Republic, EFCE Event 617, Tel +420 2 2108 2333, Fax +420 2 2108 2366.

Central & East European PET Markets, 8-9 June 2000, Prague, Czech Republic. This conference is the first on a specialised product area of the chemical industry in Central and East Europe, and is being organised by Centre of Management Technology (CMT) based in Singapore. The conference will focus on the growing opportunities for PET including supply & demand projections for the region; the investment outlook & financing options; domestic resin production & needs for new investments; how producers can market PET into the region; end-use applications: mineral water, CSD, juices, beer, purchasing strategies of major player or users, etc.

Further details can be obtained from the website <http://www.cmtevents.com/eastpet.htm> or directly from Ms Jolene Phee, Event Manager, Centre of Management Technology (CMT), 80 Marine Parade Road, #13-02 Parkway Parade, Singapore 449269, Tel +65 346 9132, Fax +65 345 5928, E-mail: jolene@cmtsp.com.sg.

A two day conference on the **Chemical and Petrochemical industries in the CIS** (www.gbusforums.com) is being organised by Global Business Forums Ltd to be held at the Radisson Hotel, Vienna, June 12-13. This conference brings together major Russian and other CIS chemical and petrochemical companies and foreign partners to discuss their short to medium term objectives, and strategies and plans for the industry. A major emphasis will be on olefins and derivatives. A limited number of exhibition stands and sponsorship packages are available at the conference. For further details please contact Jennifer Anson on Tel +44 20 8960 3822 or Fax +44 20 8960 3899.

SOUTH EAST EUROPE

Oil refining Neftochim resumed refinery operations at Bourgas on April 10, a month after it was shut for maintenance and modernisation. The LUKoil Neftochim Bourgas plant underwent an \$8 million refit, the first in since it was started in the 1960s. The turnaround was undertaken to revamp installations to improve product quality and reduce air pollution. It will enable LUKoil Neftochim to produce 92.5 octane gasoline and to switch to production of lead-free gasoline in June. LUKoil officials have said the company plans to spend \$70 million this year on repairs and upgrading the plant.

Texaco Inc has acquired 25% in the Bulgarian lubricant producer Prista Oil. Under the contract Prista Oil will promote lubricants in Bulgaria with the Texaco trade mark, and Prista Oil will also continue selling lubricants with its own trade mark. Prista Oil, set up in 1993, says motor oils produced at its modern blending plant account for 65% of the local market. Prista supplies motor and industrial lubricants to neighbouring Balkan countries, including Yugoslavia, Romania and Turkey.

SNP Petrom in Romania made a profit of 878 billion lei in 1999 with a turnover of 33,617 billion lei and expenses of 32,739 billion lei. 1999 started badly for the company due to the fall in the world price of the oil, to \$10 from \$15 per barrel. However, since the second half of 1999 the company's profit picture has improved. SNP Petrom and its adviser ABN AMRO-Rothschild are seeking foreign investors to participate in a 30% capital increase in the next few months as a first step to full privatisation. SNP Petrom is forecasting a pre-tax profit of more than 800 billion lei this year, almost the same level as on 1999 and four times more compared to 1998 level.

In 1999, SNP Petrom extracted 6.1 million tons of oil in 1999, 170,000 less than 1998 and over 360,000 tons less than 1997. The largest quantities of oil were extracted at Videle, 1.051 million tons, and Pitesti, 912,536 tons. The quantity of natural gas extracted was 5.7 billion cubic metres, 380,000 tons less than in 1998. The largest quantity was extracted at Tirgu Jiu at 1.8 million cubic metres.

SNP refineries Arpechim and Petrobrazii processed in total 5.5 million tons of oil in 1999, an estimated 4.2 million tons coming from domestic production and 1.3 million tons from imports. In 1999, Arpechim produced 914,300 tons of gas oil and 786,600 tons of fuel oil, and Petrobrazii produced 930,500 tons of gas oil and 840,200 fuel oil.

Romanian oil companies were allowed, starting from 17 April, to export gasoline and diesel oil to Montenegro to several cities of Serbia, after the Bucharest government decided to partially lift the oil embargo imposed against the Federal Republic of Yugoslavia. The move was in line with a European Union decision dating from February. At the same time, the Romanian Transport Minister annulled an order through which Yugoslavian ships did not have the right to stop in Romanian harbours, or to cross the Danube-Black Sea channel.

Synthetic rubber Good international demand for synthetic rubber has helped the Romanian company Carom at Onesti to increase sales. The market price has been on the increase in line with feedstock costs, with also a degree of influence from plant stoppages elsewhere. Carom exported up to 2,500 tons of synthetic rubber in April with orders from the UK, Switzerland, Italy, Algeria, Spain and Egypt. As the only phenol producer in Romania Carom also encountered strong demand with the European

market having been tight. Shipments have been made to the Rustavi caprolactam complex in Georgia. There are good prospects for Carom for collaboration with Radici, the new owner of Fibrex at Savinesti. Conversely, Carom occasionally encounters problems with purchases of raw materials. The company's management is hoping for a strong capital injection, or alternatively to obtain an advantageous grant in order to enable higher utilisation levels.

Methanol MSK at Kikinda in Yugoslavia plans to restart methanol and acetic acid production in May after a lengthy shutdown since last year. The methanol plant is expected to restart around May 15, with the acetic acid plant following a couple of days later. Production of methanol totalled 32,000 tons for 1999 and 13,094 tons for acetic acid. Regional prices in south Central Europe have been driven lower by strong competition from Russian and Romanian suppliers.

The feedstock position in the Federal Republic of Yugoslavia is now viewed as reasonably stable. Russia has restored natural gas supplies to Serbia after reductions to only 105,000 cubic metres of gas per hour in the middle of March without prior notice. Following recent talks between a delegation of Serbia's oil company NIS and its energy ministry with representatives of Russia's Gazprom in Moscow, an agreement was reached and the deliveries brought back to a level of 250,000 cubic metres of gas.

Renewed deliveries of around 6.0 million cubic metres a day were agreed for April and May, while the Serbian government and oil industry officials were expected to go back to Moscow later this month to agree supplies for the rest of the year. Serbia, producing domestically around 75,000 cubic metres of gas per hour, remains highly dependent on natural gas imports from Russia, via Hungary. Its average winter time needs are estimated at around 650,000 cubic metres per hour. Low gas supplies could have threatened the local production of fertilisers that would in turn result in lower grains yields.

Intermediates Heavy redundancy payments led to a loss of 12 billion lei for the Romanian paint manufacturer Policolor in 1999, but it is aiming for a pre-tax profit of 24.6 billion lei in 2000. Staff were laid off under Policolor's restructuring programme following privatisation in 1997, but profits were also affected by a decline in domestic demand. Recovery Group of the USA is assisting in its restructuring programme of Policolor alongside its subsidiary the Bulgarian chemical company Orgachim, which was acquired in 1998. Stockholders in Policolor include Romanian Investment Fund Cyprus Ltd., which owns 29.19%, the Romanian-American Fund, with 27.35%, the Bank of Bermuda with 11.25% and the Romanian Investment Company Cyprus with 9.95%.

Policolor S.A. is Romania's leading manufacturer of lacquers, paints, inks, synthetic resins and solvents, providing 35% of the country's output in the sector and holding a 30% market share. In September 1997, it was privatised with the largest part of its stock and shares being bought by investors from the UK, Cyprus, Luxembourg, Austria and Germany. Policolor established a company in Malta called Whitebeam Holdings Ltd in 1998, in order to purchase a controlling share of Orgachim A.D. The Bulgarian Agency for Privatisation approved the purchase-sale contract that allowed Policolor to acquire 51% stock of Orgachim. Policolor S.A. became the first Romanian company to buy stock and shares of a foreign company. For the acquisition of the control share of Orgachim, Whitebeam Holding Ltd pledged to pay \$8.9 million and make a \$5 million investment in the next three years from its own funds in addition to other sources.

Orgachim is the leading producer in Bulgaria of lacquers, enamel paints and mineral and inorganic pigments. The company has two production sites, both of which are located in Rousse in the Eastern and Western Industrial Zones of the town respectively. Following the privatisation of Orgachim in 1998, it now has the following stock-holders: Whitebeam Holding Ltd 51.00%, Zlaten Lev Investment Company JSC 12.00%, Orel-Invest Holding JSC 3.60%, Aktsioner Favorit JSC 2.90%, in addition to a number of small stock-holders.

Orgachim has a capacity of around 25,000 tpa for the manufacture of short, medium and long oil resins, modified alkyd resins, urea and butanol modified melamine formaldehyde resins. They are used in the production of paints, varnishes, primers and different grades of furniture lacquers in the form of colourless lacquers; acrylate, styrene acrylate and polyvinyl acetate. The dispersions' production installation has an annual capacity of 5,000 tpa. The production unit for alkyd paints, enamel paints and primers, facade paints and adhesives has an annual capacity of 45,000 tpa.

Fibres The Romanian acrylic fibre producer Melana at Savinesti recently started negotiations with the representatives of the Bank Assets Capitalization Agency (AVAB) for the redistribution of the company's debts. The negotiations are extremely important to Melana's future and an approval could mean that ownership talks are started with the national oil company Petrom. The Melana-Petrom collaboration has advantages for both companies. Moreover, Arpechim at Pitesti could provide raw material supplies for Melana, i.e. acrylonitrile. Another possibility is for Petrom to take over only a part of Melana, that would be the Melana IV unit which produces acrylic fibres. The main issue at present is that if the AVAB refuses to agree to debt redistribution any negotiations with Petrom would be halted.

South East Europe-currencies April 17th 2000			
Country	Currency	\$1=	EURO =
Bulgaria	Lev	2.0054	1.9480
Croatia	Kunar	8.0943	7.7390
Macedonia	Dinar	59.8500	57.2228
Romania	Lei	18735.0	18688.8
Slovenia	Tolar	213.685	204.304
Yugoslavia	New Dinar	12.1769	11.6472

After buying Fibrex at Savinesti earlier this year Radici is now considering the purchase of share stock owned by the State Ownership Fund (SOF) at another fibre producer Polirom Roman. The SOF announced that the open outcry auction for the sale of the 70% stock from the share capital will take place on April 27. Radici was the only company that bought the task book for Polirom which was put up for sale originally

last year.

The SOF wants to get 85.4 billion lei for the 70% stock of the share capital of Polirom. The other shares are held by the Financial Investment Company (11.53%) and other minor shareholders at 17.8%. The company produces and sells polyamide fibres and threads and has a share capital of 122.04 billion lei. In 1998, the company had a turnover of 9.1 billion lei. Radici is reported to have paid 25 million lei for the task book. The participation guarantee is of 4.2 billion lei.

Soda ash Solvay-Sodi is still in negotiations with the Bulgarian government regarding a 77% stake in the Devnya Thermoelectric Power Plant which is intended to support integration with the soda ash plant. The negotiations have been underway for a year. The soda ash plant is the power station's main consumer of steam. Solvay-Sodi, which is led by Solvay with minor roles played by the EBRD and the Turkish company Sisecam, plans to invest DM300 million in the station. In addition, Solvay-Sodi is expected to take shares in Geosol of Provadia (the unfinished salt plant), and the Limestone Quarrying Plant at Chernovo. The Devnya soda ash complex has interests in all three companies, and by taking ownership Solvay-Sodi will be well placed to reduce costs.

Fertilisers Chimco took a shutdown of operations between February and April due to gas supplies being disconnected by Bulgargaz for non-payment. There have also been some maintenance repairs undertaken at the production facilities at Vratsa.

Investment is taking place at Azochim at Savinesti in Romania. Azochim's main shareholder Interagro Bucuresti has been persuaded to support the costs for completing the refurbishment of the ammonia unit by the end of this year. The completion of this investment, which is 90% finished, will require substantial funds. Interagro Bucuresti has been reluctant to complete this project as it also owns an ammonia plant at Bacau and is able to supply Azochim with additional ammonia. By finishing the upgrade at Savinesti this may eliminate the need for this product. Azochim's prospects have improved since it managed to acquire an export contract of more than 20,000 tons of chemical fertilisers in March.

BALTIC STATES

Mazeikiu Nafta continues to negotiate with Russian crude suppliers for long-term deals. Williams and LUKoil met April 6-8 in London for discussions on a number of long-term contracts and strategic issues. Although the Lithuanian government retains 59% of Mazeikiu Nafta it has plans to sell a stake of about 10% to YUKOS in the near future. YUKOS has said that it could deliver a total of about 4.2 million tpa of crude oil for Mazeikiu Nafta and for exports of the concern's Butinge Nafta oil terminal. The price of a 10% stake in Mazeikiu Nafta could be about 182 million litas, according to unofficial sources. Owing to the inability to influence events in Lithuania LUKoil is now planning to build an oil refinery in Latvia, which will be located in Ventspils. The capacity of this refinery will be around 5 million tpa.

Baltic States-currencies April 17th 2000			
Country	Currency	\$1=	EURO =
Estonia	Kroon	16.3857	15.8377
Latvia	Lats	0.5918	0.5856
Lithuania	Litas	4.0011	3.8255

Mazeikiu Nafta has recently signed a long term co-operation agreement with and BP Amoco under which it will sell all products of Mazeikiu Nafta's, exported by sea, on international markets. The agreement allows Mazeikiu Nafta to keep control over production and at the same time opens up

access to BP Amoco's infrastructure of international trade in oil products and experience in north-eastern Europe. Mazeikiu Nafta has already forwarded the first shipments of diesel, aviation fuel and petroleum via BP Amoco this month. Mazeikiu Nafta refined 1.324 million tons of crude oil in the first quarter of this year.

COMMONWEALTH OF INDEPENDENT STATES

Russia

The Russian Ministry of the Economy has forecast a 9% increase in Russian chemical output in 2000 over 1999, a more modest increase than achieved last year. In 1999, physical output exceeded 1998 volumes by 21.7% and 1997 volumes by 13%. In value terms, output reached 177.9 billion roubles with the rouble starting the year at just over 20 to the dollar and ending the year at over 26 to the dollar.

Russian Chemical Production (unit-kilo tons)		
<i>Product</i>	<i>Jan-Dec 99</i>	<i>Jan-Dec 98</i>
Ammonia	9,286.0	7,878.0
Caustic Soda	1,029.1	853.4
Soda Ash	1,918.9	1,477.7
Methanol	1,442.1	1,177.2
Acetic Acid	113.2	47.9
Ethylene	1,630.2	1,165.1
Propylene	772.1	553.5
Benzene	735.7	611.0
Orthoxylene	213.0	219.5
Paraxylene	178.7	181.9
Styrene	244.7	170.5
Phenol	127.0	92.3
Acetone	83.0	68.6
Phth Anhydride	59.1	23.6
Butadiene	233.6	217.7
Isoprene	241.3	232.3
Syn Rubber	736.5	621.5
Polyethylene	802.9	594.3
Polypropylene	198.8	147.3
Polystyrene	67.1	35.1
PVC	419.4	296.6
Caprolactam	214.6	162.6
Aniline	36.9	32.3
Plasticizers	70.4	52.9
Carbon Black	349	292.3
Agg Tonnage	21,203.3	17,205.3
Change %	+23.2	

Foreign trade decreased in 1999 due mostly to the downturn in imports, but the fall was not as great as between 1998 and 1997. Imports fell from \$2,751,100,000 in 1998 to \$2,064,400,000 in 1999, a 25% fall. However, imports were worst affected following the August 1998 economic crisis and actually witnessed some sort of recovery in 1999. Exports hardly changed in 1999, moving down to \$4,043,500,000 from \$4,079,300,000 in 1998. The share of chemicals in Russia's aggregate foreign trade was 6.13% in 1999 compared to 5.94% in 1998.

Last year the average rate of capacity utilisation in the Russian chemical industry increased to 53% compared to 43% in 1998. The average levels of profitability amongst chemical producers increased from 8% to 20%, whilst the share of debts in companies fell from 48% to 30%. The recovery seen last year has continued into 2000 with a 24% increase recorded for the first quarter over Q1 1999 volumes.

Export prices for Russian crude oil have dropped below \$20 per barrel in April, down by around 25% on the \$26 a barrel achieved in March. Such is the close relationship between the world oil price and the Russian budget this fall has raised fears that this year's economic targets will not be met.

Oil refining/feedstocks

Surgutneftegaz will invest \$19.6 million in the construction of "a transportation & technological complex" in the Batareynaya Bay (Leningrad Region) in 2000. Rosneft is planning to buy out 50% of Gubkinsky gas refinery plant's (GGPZ) assets from SIBUR. The Gubkinsky refinery is the key raw material supplier of Rosneft's Rosneft-Purneftegaz division. Other gas refineries owned by SIBUR include the Perm plant which produces propane, propane-butane, isobutane and normal butane, pentane, isopentane and normal pentane, hexane-pentane.

Good signs continue to emanate from the refining sector. In the first quarter this year the Orsknefteorgsintez refinery in the south Urals processed 12.2% more crude than in the same period in 1999. The supply situation for the Orsk refinery seems bound to improve this year due to crude being made available through the Kazakh-Chinese joint venture Aktobemunaygas. Plans exist to ship process about 5 million tons of oil this year compared to 4.047 million tons in 1999. Orsk has no access to the main Transneft pipelines, so the use of Kazakh crude at the refinery does not displace any Russian oil.

In the Lower Volga region the Saratov refinery processed 947,800 tons of crude in the first quarter, 31.5% more than the same period last year. This represents a 53.8% utilisation rate against a 40.8% utilisation rate. However, Surgutneftegaz subsidiary Kinef at Kirishi noted a small drop in the first quarter of 429,000 tons of crude to leave its processing volume at 4.1 million tons.

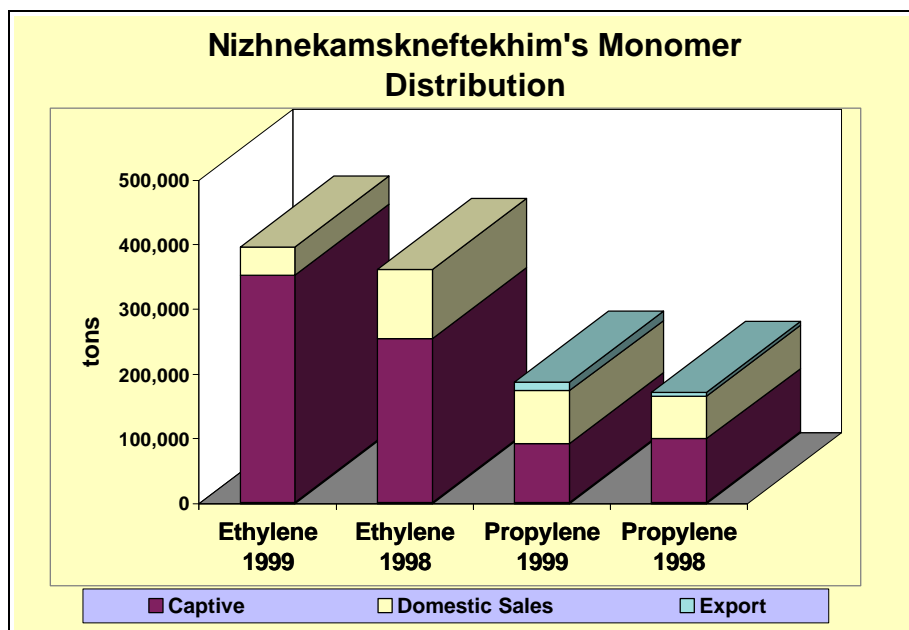
Petrochemicals

As part of Gazprom's growing interest in chemical integration the company's management has proposed to its board that it considers acquiring a controlling stake in SIBUR. SIBUR is planning to call an extraordinary shareholders' meeting in May to consider allowing Gazprom to increase its share from 18.5% to 51%.

Last year as Russia's leading producer Nizhnekamskneftekhim produced 394,900 tons of ethylene against 360,310 tons in 1998. The significant feature of last year's performance was the increase in captive ethylene consumption which rose approximately by 98,000 tons over 1998. Partly being due to ethylene being used for more profitable derivatives than being sold as a monomer Nizhnekamskneftekhim was able to report 11,124.6 million roubles in sales' profit for 1999, an increase of 96.6% against 1998. At the same time, the cost of sales increased by 47.9% to 8,123.3 million roubles. The gross profit amounted to 3,108.4 million roubles, compared to 114.1 million roubles in 1998. The position on propylene at Nizhnekamsk was similar to ethylene with an increase in production from 169,340 tons in 1998 to 185,300 tons in 1999. Captive consumption of propylene fell marginally by about 7,000 tons in 1998. Exports of propylene last year from Nizhnekamsk totalled 13,377 tons.

In the first quarter this year Kazanorgsintez recorded a 17% improvement in physical volume over Q1 1999. Profitability increased by 33% in the first quarter. The company has virtually cleared up its debts with the

Tatarstan state budget. The prospects for implementing the ethylene expansion and upgrading the polyethylene facilities are starting to look more favourable. Additional ethylene capacity is required to reduce the dependency on purchases from Nizhnekamskneftekhim, and to support derivative expansions. In 1999 Kazanorgsintez produced 308,300 tons of ethylene (against 258,201 tons in 1998), but produced 345,900 tons of polyethylene plus other derivatives such as ethylene oxide.



Russian Ethylene Production (unit-kilo tons)				
Producer	Location	1999	1998	
OAO "Kazanorgsintez"	Kazan	308.3	258.2	
OAO "Nizhnekamskneftekhim"	Nizhnekamsk	394.9	360.3	
OAO "Angarsknefteorgsintez"	Angarsk	161.9	94.4	
OAO "Ufaorgsintez"	Ufa	140.2	143.2	
OAO "Salavatnefteorgsintez"	Salavat	229.5	157.5	
OAO "Stavropolen"	Budyennovsk	230.9	70.1	
Others		164.5	81.3	
Totals		1,630.2	1,165.1	

Russian Propylene Production (unit-kilo tons)				
Producer	Location	1999	1998	
OAO "Nizhnekamskneftekhim"	Nizhnekamsk	185.6	170.5	
OAO "Angarsknefteorgsintez"	Angarsk	76.2	44.5	
OAO "Ufaorgsintez"	Ufa	100.1	101.6	
OAO "Salavatnefteorgsintez"	Salavat	114.8	78.6	
OAO "Stavropolen"	Budyennovsk	114	36.5	
OAO "Moscow NPZ"	Moscow	85	68.1	
Others		96.4	54.8	
Total		772.1	554.7	

The largest improvements in ethylene production last year took place at Angarsk and Budyennovsk. This year the largest improvement could take place at Kstovo which is currently the subject of a heated competition between LUKoil and Gazprom. LUKoil has been making strong efforts in recent weeks to acquire Norsi's petrochemical assets. However, since the start of this year the Kstovo petrochemical facilities have been the focus of active interest from both SIBUR and LUKoil, probably on the pretext that it is the closest complex to the main Moscow marketplace. Moving into petrochemicals is part of LUKoil's long term strategy. As part of its future plans LUKoil intends to diversify away from the core

businesses of oil by expanding petrochemical, gas, transportation, and service operations. These activities could account for up to 15% of the company's income. This will help insulate us against fluctuations in the price of oil and thus help increase revenues.

To recap the position at Kstovo, SIBUR and ZAO "Neftekhim" at Kstovo signed an agreement on December 16, 1999 for the creation of a petrochemical company called OAO "SIBUR-Neftekhim". Until then, 57.2% of ZAO "Neftekhim" was owned by OAO "Norsi" (which is part of the oil company Norsi-Oil), with the other 42.5% owned by OAO "Kapolaktam". Under the new structure 51% of OAO "SIBUR-Neftekhim" is owned by SIBUR and its subsidiaries, with the remainder owned by ZAO "Neftekhim".

This seemed a conclusive arrangement until LUKoil released plans in the past few weeks that it intends to purchase Norsi-oil in one package, including Neftekhim's assets. LUKoil is interested in the whole company, whilst SIBUR is only interested in the Neftekhim complex. There are conflicting reports over whether the local gubernator in Nizhnyi Novgorod is in favour or dissatisfied with the SIBUR-Neftekhim arrangement.

LUKoil plans to acquire the controlling stake of Norsi-Oil on the condition that the ethylene EP-300 unit and the ethylene oxide/glycol units are part of the deal. LUKoil has not said if it would go ahead with its proposed

purchase of Norsi Oil if the petrochemical plant is not included. Both the ethylene and ethylene oxide facilities are owned by SIBUR-Neftekhim. The conflict between LUKoil and Gazprom has become intense. LUKoil, which holds a 6% stake in Norsi Oil, attempted originally to cancel the creation of SIBUR-Neftekhim. LUKoil has also stated that it was keen on establishing raw material supply links between Norsi-Oil and the Oriana plant at Kalush in Ukraine.

The General Director of SIBUR-Neftekhim stated in April that if LUKoil took over Norsi-oil in full it would leave Kaprolaktam without raw materials. SIBUR's press release said on April 20 "LUKoil's attempts to gain control over the petrochemical plant are dangerous for both the economic situation in the region and the Norsi Oil Co". SIBUR has informed the local gubernator in Nizhniy Novgorod that it would ensure that Norsi would receive full deliveries of crude and gas condensate, in particular designed to increase the utilisation levels of the ethylene cracker. SIBUR would also establish SIBUR-Neftekhim as a self-standing business.

This complicated struggle, and war of words, has led to LUKoil and Gazprom forming a working party to try and reach some sort of accord. Neftekhim belonged to SIBUR and Gazprom until May 1, by which time further approval was to be acquired from the local authorities in Nizhniy Novgorod. The company has plans to upgrade the EP-300 cracker at Kstovo to increase effective ethylene capacity from 120,000 tpa up to 255,000 tpa.

In terms of current operations production at Kstovo has been affected by the energy shortages. On April 11, Nizhnovenergo disconnected electricity supplies to SIBUR-Neftekhim as part of the conflict between the energy supplier RAO UES and Gazprom. Gazprom recently reduced gas supply to RAO UES's enterprises owing to non-payment for gas consumption and UES retaliated. Other companies in the Nizhniy Novgorod region OAO Korund and OAO Orgsteklo were also to be cut off from the power system in April for defaulting on payment.

On April 25 Tomsk Petrochemical Combine repaid the local energy company Tomskenergo one million roubles from the outstanding debts of twenty million roubles. The financial group Gruppa Alians is taking a trust management share in the Siberian Integrated Chemical Combine, in agreement with the Russian Ministry of Nuclear Energy which owns Tomsk Petrochemical Combine. The aim is to take a step towards controlling Tomsk Petrochemical Combine which is a subsidiary of the Siberian Integrated Chemical Combine. In the first place the Ministry for Anti-Trust Policy and Support of Entrepreneurship (MAP) made a decision to meet application on purchasing, by Alians of Siberian Integrated Chemical Combine's stake in OOO Apparat Upravlenie.

Polyolefins Prices for polyolefins in Russia have changed little in the past few months. OOO "Dey" is currently quoting a range of 23,300-25,000 roubles per ton for both LDPE and HDPE from Kazanorgsintez. Further details: OOO "Dey", Tel/Fax +7 8432 197203, E-mail: liga@mi.ru. Another Moscow trader was offering LDPE from Moscow at 21,100 roubles per ton. Further details: OOO, Tel/Fax +7 095 464 63 02, E-mail: alma@com2com.ru. OOO "Interpolikhim" is offering from its Moscow warehouse polypropylene from the Moscow refinery in the range of 21,000-21,500 roubles per ton. Further details: Irina Donova, OOO "Interpolikhim", Tel +7 095 916 11 23, 916 37 72, Fax +7 095 916 10 44, E-mail: ipolihim@msk.tsi.ru.

Polypropylene Projects

The Bashkortostan Cabinet of Ministers is considering an expansion of the 100,000 tpa polypropylene plant run by Bashneftekhim on the Ufaorgsintez site. The plant is currently running at full capacity, producing around 9,000 tons per month. Domestic demand for polypropylene is strong, and to add a polypropylene compounding unit is planned for construction at Ufa which will require additional polymer. Thus, a 50,000 tpa expansion is proposed, which would take about two months to complete and about \$30 million. Tecnimont built the original plant and would be expected to carry out the project if the go-ahead is given.

Russian Polypropylene Production (unit-kilo tons)			
Company	Location	1999	1998
AOZT "Polypropylene"	Ufa	99	74.5
OAO "TNKhK"	Tomsk	23.2	7.5
OAO "Moscow NPZ"	Moscow	76.6	65.2
Totals		198.8	147.3

Tecnimont has also been involved in the overdue Irtyshpolimer project at Tobolsk which is a major centre for the processing of gas liquids in Western Siberia. The basis of this project will convert propane from the Central Fractionation Unit, operated by Tobolsk Gas Chemical Complex, to polypropylene. A letter

of intent with Tecnimont could, subject to successful financing, backed by the European Bank for Reconstruction and Development, and lead to start-up of the project in three years. The problem is obtaining the finance.

Elsewhere, the Budyennovsk polypropylene project is still being analysed with LUKoil keen for the unit to be constructed. The engineering contractors for the project are Tonar in Moscow. The polypropylene plant will

consist of a general purpose polypropylene unit with an annual capacity of 80,000 tons, and a capacitor film grade polypropylene unit with an annual production capacity of 20,000 tons. The expected revenue from this project has been estimated in the range of \$60 million.

At present Russian polypropylene producers are just about keeping pace with internal demand, but production at Tomsk is often sporadic which puts pressure on the plants at Ufa and Moscow. The Moscow refinery, which produces Kaplen, is part of the Central Fuel Company. Kaplen has a wide range of applications, including construction, automotive and laminating industries. Sales from the plant at Moscow are divided between domestic market deliveries and exports.

Polypropylene was first produced in the USSR in 1966 at the Moscow refinery, with the introduction of a 10,000 tpa plant. However, rapid demand growth from a low base helped to support the idea of a new larger plant at Moscow of 100,000 tpa which was introduced in 1995. The plant consists of four installations; the propylene supply unit, polymerisation, granulation unit, and the packing unit. The new plant, based on Himont license, produces 25 grades of polypropylene.

Olefin derivatives Salavatnefteorgsintez has been undergoing maintenance at its OXO alcohol plant in recent weeks. Trader OOO "SKS" is offering from Salavatnefteorgsintez monoethanolamine at 9,100 roubles per ton, 120 tons of triethanolamine at 7,650 roubles per ton, and diethanolamine at 11,250 roubles per ton. Further details from Pavel Silantsev, Director, OOO "SKS", Tel/Fax +7 34763 33859, E-mail: sp@bashnet.ru. Other products from SKS include polystyrene 18,400-22,000 roubles per ton, ABS at 21,400 roubles per ton, and HDPE at 23,000 roubles per ton. MEG is quoted at 10,950 roubles, DEG at 9,700 roubles, and TEG at 7,300 roubles. Triethanolamine produced by Kazanorgsintez was being offered in late April at 6,400 roubles per ton, prior to VAT Further details Tel +7 8432 42 46 26, E-mail: ecom.bancorp.ru.

Nizhnekamskneftekhim Styrene Sales (unit-kilo tons)			
		1999	1998
Domestic sales		75,592	59,643
inc	OA O "Voronezhskintezkautchuk"	17,287	15,208
	OA O "Salavatnefteorgsintez"	36,181	21,667
	OA O "Plastik"	8,981	7,367
Export		144,831	110,368
Total Sales		220,353	170,011

Nizhnekamskneftekhim increased styrene monomer shipments in 1999 to 220,353 tons compared to 170,011 tons in 1998. There was a sharp increase in exports in Q4 last year. The primary aim of the company, despite recent high styrene prices, is to move away from dependence on the merchant market and to convert monomer into polystyrene at

locations such as Omsk and Aktau.

Depending on what happens in the battle with LUKoil (see *petrochemicals above*) SIBUR-Neftekhim has shown an interest in buying more than 50% of the debts of Orgsteklo at Dzerzhinsk. This is part of SIBUR's attempted expansion in the chemical industry in the Nizhniy Novgorod region. Orgsteklo commissioned a new disinfectant production line in April called Sulphochloroantin-D, based on internal research. Other recent new products from Orgsteklo include ethers for the paints and resin industries. In the first place it seems that Orgsteklo will form closer management links with another local chemical producer Korund, with a view towards integration and possible merger. Orgsteklo and Korund are linked in the supply chain; i.e., Orgsteklo provides Korund with prussic acid. Combining the two companies would make an attractive acquisition prospect for SIBUR-Neftekhim.

SIBUR-Neftekhim has accordingly reached agreement with Uhde over the construction of a new polyethylene plant, which may now be in question until the dispute with LUKoil is resolved. However, if the project is allowed to proceed Elenac will supply the equipment under SIBUR's recommendation and the amount of investment will be around \$130 million.

Polyurethanes On April 11 Nizhnekamskneftekhim and BASF subsidiary Elastogran GmbH Lemförde reaffirmed their plans announced last year to create a 50-50 joint venture in the production and sale of polyurethanes at Nizhnekamsk. The principle of the partnership was discussed initially in 1999 and has now reached the formative stage with the joint venture being called OOO Elastokam. The volume of investment will amount to around DM12 million, most of which will be directed towards a new unit for polyurethane production. This unit is expected to be completed at the end of 2001 with raw materials being supplied by the participants in the venture.

Methanol & Fertilisers ZAO "Kama" is offering methanol for export at \$100 per ton on a basis of DAF Zabaikalsk-Manchuria. Further details: Alexander Pchel'nikov, ZAO "Kama", Tel +7 3832 22 16 75, +7 3832 22 16 75, E-mail: apchel@hotmail.com.

Russia is in discussions with the USA over the introduction last year of anti-dumping duties on Russian ammonium nitrate exports. Azot at Novomoskovsk in the Tula oblast produced 154,437 tons of mineral fertilisers in the first quarter of 2000, compared to 119,002 tons in Q1 1999. Uralalkali in the Urals produced 3,158,134 tons of potassium chloride in 1999, which was 3.66% lower than in 1998. Exports amounted to 2,623,247 tons, or 83% of the total volume produced. Uralalkali has reached a joint venture contract with the Canadian company Canpotex for the export of potassium chloride. Large volumes are being considered in the range of 2.5 million tpa, which would account for most of Uralalkali's production. In addition, Canpotex may be invited in the near future to buy shares in Uralalkali.

Russian Methanol Production (unit-kilo tons)			
<i>Producer</i>	<i>Location</i>	<i>1999</i>	<i>1998</i>
OAO "Shchekinoazot"	Shchekino	244.4	216.9
OAO "TNKhK"	Tomsk	233.6	184.1
OAO "Metrax"	Gubakha	592.1	471.8
NSPP	Novocherkassk	115.1	114.6
Akron	Novgorod	73.4	70.4
Others		183.5	121.2
Total		1442.1	1179.1

OAO "Apatit" is improving its economics in nepheline concentrate production. Bechtel has formed an agreement with the Sverdlov factory and Kristall Institute in the Dzerzhinsk region for a project to reprocess rocket fuel oxidants into nitric acid. The agreement falls under the framework of the Russo-American arms' limitation programme.

PVC & Chlorine

OAO "Sayanskkhimprom" in the Irkutsk oblast produced 40,300 tons of PVC in the first quarter of 2000 compared to 33,900 tons in the same period last year. Caustic soda production increased from 22,950 tons in the first quarter last year to 22,950 tons. Sayanskkhimprom has increased its capacity for the production of cable plastics in the first quarter to roughly 1,200 tons per month. About half will be consumed internally and the remainder will be sold to customers to the Russian Far East and the Urals.

A key factor for Sayanskkhimprom, and for many other chemical companies, is the changing rules on VAT in Russia which are considered to be a major drain on buying and selling product. At present Sayanskkhimprom is owed VAT from the Federal Budget of around 160 million roubles. Without this money, which is required for essential maintenance, the company is being forced to reduce production levels. However, there is hope that the problem will be solved soon.

At nearby Usolye-Sibirskiy the Board of Directors of Usolyekhimprom has approved the investment programme, including 9 projects. Profitability has increased in the past year with the company's overall investment climate having improved. Usolyekhimprom is currently in the throes of signing a contract with China for the supply of calcium carbide.

In Bashkortostan, Kaustik at Sterlitamak will consider an issue of additional shares on May 20, with the aim of generating more capital support modernisation and expansion. Traders Borchim were offering PVC from Sterlitamak in April at 21,000 roubles per ton, inclusive of VAT. Further details: Borchim, Tel + 7 3424 713 381, E-mail: borchim@mail.ru.

Aromatics & Compounds

Olmark is quoting orthoxylene from Ufaneftekhim at 11,500 roubles per ton. Further details: A Skrivan, OOO "Olmark", Tel +7 3472 230998, 225940, E-mail: uralsib@bashinform.ru. Kronos is offering paraxylene at 10,400 roubles per ton. Further details: Kronos, Tel +7 3812 31 65 50, E-mail: comkronos@mail.ru. OOO "Natolkhim" is offering 100 tons per month of benzene, produced in Bashkortostan, at a current price of 9,800 roubles per ton. Further details: OOO "Natolkhim", Tel +7 095 232 2945, 917 5305, Fax +7 095 917 5 184, E-mail: orgchem@cityline.ru.

Ufakhimprom is attempting to attract funds for the support of the revamp of the bisphenol A plant at Ufa. The plant at present has a capacity of 50,000 tpa, although in principle it could run at 60,000 tpa. The main problem facing current operations is a shortage of raw materials. The project aims of the company are to improve the efficiency of the plant and to increase the capacity to 75,000 tpa. The feasibility study is being conducted at present.

CIS- currencies April 17th 2000			
Country	Currency	\$1=	EURO =
Azerbaijan	Manat	4403	4228.83
Belarus	Rouble	995,900	919,290
Kazakhstan	Tenge	142,190	135,948
Russia	Rouble	28,4875	27.2369
Ukraine	Hryvnia	5.5550	5.3111
Uzbekistan	Sum	775.000	740.979

Russian demand is good in the unsaturated polyester resin industry, but there are problems in securing raw materials, particularly maleic anhydride. The Novomoskovsk Orgsintez maleic anhydride plant in Russia is not operating and this is creating demand for imports into the CIS. The Russian maleic market is estimated at about 5-6,000 tpa, and there have been active efforts by producers to secure material. Belarus is also in the market for imports. The reasons

for the Novomoskovsk Orgsintez not operating are thought to be connected with the changes in ownership taking place in the company, and financing the purchase of benzene.

Most of the demand for maleic anhydride in the CIS stems from the manufacture of unsaturated polyester resins, but there are a number of small scale applications with the potential to grow. For instance, Nizhnekamskneftekhim uses maleic anhydride with a styrene copolymer to produce a lacquer product called Kors. Kors is used for corrosion-proof coating of steel, concrete and ferroconcrete structures; and in lacquer and dye compositions. It can also be used for production of dyes and pastes for pipeline coatings.

Phenol from Ufakhimprom is being offered for May at a price of 10,500 roubles per ton, but volumes are reported tight. Further details: D V Rastorugev, Optkhimtorg, Tel +7 095 132 69 03, Fax +7 095 132 68 03, E-mail: opt_him@chat.ru. Traders Borchim were offering acetone from Ufa in April at 15,500 roubles per ton, inclusive of VAT. Further details: Borchim, Tel + 7 3424 713 381, E-mail: borchim@mail.ru.

Synthetic rubber Tobolsk Petrochemical Combine in the Tyumen oblast has restarted its project on the new halogenated butyl rubber plant being constructed under the joint venture Sovbutital. The project has been undertaken over the past few years on a stop-start basis due to a lack of finance, but the plan now is complete the unit. The unit will be based on a combination of imported equipment, to the value of Euro109 million and domestic equipment, to the value of 31 million roubles. No start-up dates have been provided but Sovbutital is optimistic of completion in the near future. Russia does not produce halogenated butyl rubber at present.

In April it was announced that a packet of shares in Nizhnekamskshina owned by the Tatarstan government would be transferred to Tatneft, as part of the increased integration of the regional petrochemical industry. Nizhnekamskneftekhim supports this transfer as much of its rubber production is targeted on Nizhnekamskshina as one of the major tyre manufacturers in Russia.

During the first quarter of 2000 Sibneft and other creditors Omskenergo and Titan invested 88 million roubles in the OAO "Omsk Kautschuk" plant. This investment has allowed important maintenance to be undertaken. Feedstocks have been arriving in greater volume at the plant and Omsk Kautschuk produced roughly 2,000 tons of synthetic rubber in April. This could rise to 5,000 tons per month if sufficient feedstocks are received. The company's future depends to a large extent on relations with Sibneft.

In the Perm region OAO "SIBUR" has agreed a contract with Air Liquide for the purchase of a new nitrogen unit for \$2 million for its subsidiary Uralorgsintez. This is part of SIBUR's investment programme of \$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. 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 60,000 tpa unit for isoprene in a one stage synthesis process.

Nizhnekamskneftekhim is planning an upgrade of its isoprene production facilities with the aim of increasing capacity to 120,000 tpa in the first phase and reaching 200,000 tpa in the second phase. One stage synthesis production will be introduced. By modernisation Nizhnekamskneftekhim estimates it can reduce isoprene production costs by as much as 30%. This is part of a wider modernisation programme at Nizhnekamsk which includes an increase in ethylene capacity to 500,000 tpa.

End-use industries Paint manufacturer OAO "Lakokraska" in Chuvashia reports favourable results for the first quarter with a 11.9% increase in turnover compared to Q1 last year. Hungarian pharmaceutical manufacturer Egis Rt has stated that it plans to start production in Russia to tap into the recovery of that market following the 1998 collapse, and to pre-empt a possible import surcharge on drugs. Rival Gedeon Richter has started packaging and storing drugs in Russia after building a factory for about \$10 million. The unit, 100 km from Moscow, started operating last December.

A Russian government meeting in late March approved a proposal to give 108 million roubles and 210 tons of insecticides to farmers to fight agricultural pests (such as locusts) this year. The proposal to make the funds and pesticides available in the first half of the year was put forward by the agriculture, emergency situations and finance ministries to prevent a repeat of damage done last year.

The finance will come from the government's reserve fund and the insecticides from the agriculture ministry's reserve pesticide fund. Last summer Russia was hit by swarms of locusts originating around the Caspian Sea which swept through eastern and western Siberia, the border region with Kazakhstan, Kazakhstan itself, and even as far west as central Russia. By early August, during which temperatures in much of the country drop quickly from July's highs, locusts had infested 1.9 million hectares out of a total 50 million sown for all crops in Russia. There have been warnings that unless Russia takes steps to prepare farmland against locusts the problem could return this summer if the same hot, dry conditions return.

There is actually no shortage of pesticides available in Russia, but large volumes are considered vastly too dangerous for application and remain encamped in warehouses. This poses an environmental problem for the Russian authorities in destroying these substances safely.

Belarus

Oil refining volumes in Belarus have been up Novopolotsk and Mozyr due to increased shipments of crude from Russia via Belnaftakhim. 4.11 million tons were refined in Q1, 18.6% higher than Q1 1999. Slavneft has failed to agree terms with the Belarussian government over the third step of modernisation of the Mozyr refinery. The goal is try and improve the production standards to bring Mozyr in line with other European refineries. This stage of modernisation will require in the range of \$120 million. Although no agreement was reached it is expected that President Lukashenko of Belarus will raise the matter with President Putin. Slavneft controls 42.5% of the Mozyr refinery, and the Belarussian government 47.7%.

Ukraine

According to the State Property Fund on April 26 Ukraine will sell 67.41% of the Linos refinery in June. The starting price is set at 48.518 million hryvnias. The winner of the tender would also have to repay the refinery's debts of Euro18.8 million to the finance ministry and 10.7 million hryvnias to the state budget. In addition, the winner will have to invest 13 million hryvnias in company working capital, and 60 million hryvnias in modernisation of the plant over the next five years. Linos has a nominal refining capacity of 16 million tpa of oil, but in recent years has been processing only about 2.5-3.5 million tons, and often stands idle due to lack of crude.

Fertiliser producer Stirol at Gorlovka plans a new share issue to boost its charter capital to 358,053,360 million hryvnias to upgrade and expand its output. Stirol said in a statement it would issue 2,712,500 ordinary shares with a nominal value of 12 hryvnias each to increase its charter capital from the current 325.503 million hryvnias. Stirol's pre-tax profits rose to 88.008 million hryvnias in 1999 from 36.727 million hryvnias in 1998.

Transcaucasus

The Armenian chloroprene producer Nairit restarted production in March, with the aim of producing 800-900 tons per month at a market price in the range of \$2,500 per ton. Nairit's production will be exported mostly to Russia with buying agreements already formed. Nairit has incorporated a three year programme for debt rescheduling, including gas and energy debts in addition to outstanding wages. The Nairit plant is believed to have been closed as long ago as 1988 due to environmental problems.