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ОАО «Таифа»

Albert Shigabutdinov: «The concentration of our presence at the enterprises of the Republic of Tatarstan is caused by our desire to realize new projects»



PSC «TAIF»

– Mr. Shigabutdinov, this year TAIF celebrates its 10th anniversary. Are there large-scale activities being planned?

– We will certainly celebrate the anniversary inside the company. But I think that 10 years anniversary is not yet a determining period, it's just like the third grade at the secondary school.

– TAIF consists of more than 40 enterprises. Is TAIF an open company? What's the main source of investments of your company? Is

it bank credits, attracted investments, or funding capital?

– We use both, raised and our own funds: credits and loans. Our company is an open type company, though not public yet. Our shares are not traded at stock exchanges. The information on our affiliated companies is a public domain. Our assets and equities in companies, for instance, Kazanorgsintez or Nizhnekamskneftekhim are known to anyone. After we sold a part of our telecommunication business, we

concentrated the main part of our assets in petrochemistry and oil refining – the two activity lines we are going to render most vigorous development.

– Has your company attempted to invite auditing companies of the «Big Five» in order to optimize its business?

– Oh, yes. We have worked at different times with Deloitte & Touche, Ernst & Young, Arthur Andersen, Pricewaterhouse and others. We wanted to understand the essence of the «Big Five», which, as

they say, determines everything like the God himself.

I'd say they did a lot in bringing Russian and Western businesses closer to each other. Their invaluable contribution was to teach Russian and foreign specialists to understand each other better. That was their major achievement. But what concerns «planned miracles», like restructuring of business processes, I'd say they all are too far from the Russian reality. Of course, companies tried to advise us on material aspects, but their recommendations were mostly suitable for Western markets and were hardly applicable to our market.

– Mr. Shigabutdinov, how long does your working day last? How is your company managed: how many deputies do you have and how many basic activity lines are there in your business?

– The top managers of the company work 14–16 hours a day. Nine persons report directly to me, and each of them has his/her own area of responsibility. Out of the 43 companies that comprise TAIF we'll leave maximum 15, the rest of them will be gradually separating from our company and will start operating independently. To be able to do that, they'll have to return all the funds that were invested into them with a 4–6 % interest. TAIF has five basic directions: stock and financial markets; oil production, oil processing, and petrochemistry; telecommunications; construction; and services.

– Which of the business segments are you going to separate and which will definitely be left?

– We have already separated the Kazan wholesale and retail marketplace, «Meridian» super-market store. Some other enterprises are waiting for their turn. It is important for us that all economic sectors have strong companies operating in them, which will have positive effect on the economic development of the Republic of Tatarstan, no matter who these companies are owned by, except criminals, of course. We will continue to work in the field of production of hydrocarbons, petrochemistry, oil refining, telecommunications, and stock exchange.

– The abbreviation «TAIF» stands for Tatar-American Investment Fund. How are equities distributed inside TAIF, what is the percentage of American share, and who is the main owner of TAIF? Is your company related to the government?

– NKS Trading of New York owns 36.3% of the stock. We want to increase the Russian share in the stock and are currently negotiating this issue. Today, the government has no equity in TAIF. On the whole, TAIF is a private company, its shares are not traded in the stock market, and therefore the list of shareholders is confidential. But the talks that Radik Shaymiev owns and runs the company are just rumors which appeared as the result of political games. In reality, he is the chief adviser to the

Director General, the shareholder, the author, coauthor and participant of many strategic ideas and programs. Besides, being a famous racing car driver and European champion in autocross, he heads sports movement related to car racing in TAIF. We pay much attention to developing sports in our republic and believe that it is quite an important line of our company's activity.

– Are you a shareholder of your company?

– No, not directly. I have no shares as a private person, but I am an indirect share-holder.

– How is TAIF's net profit distributed? Are the dividends being paid?

– We allocate not more than 15% of our profit for dividends payment. The rest is being spent to increase our asset, that's why we grow so quickly.

– What do you, as investor, consider the main risk when investing a project?

– The incompetence of the people who implement this project.

– Does TAIF have a long-term development strategy?

– Yes, we have approved a strategy for the next 15 years.

Petrochemicals and Oil Refining

– What does the development of petrochemical business mean to you? Do you mean acquisition of new enterprises?

– No, not exactly. When we come to an enterprise, we, first of

Albert K. Shigabutdinov was born on November 12, 1952 in the city of Pervouralsk. In 1976, he graduated from the Kazan Aviation Institute majoring in radio control. After graduation from the Kazan Aviation Institute in 1976 he started to work as an engineer at Special Design Bureau-5 engaged in research. Starting from the year 1979 he held the positions of the Deputy Director of «Narmonsky» state farm, the Head of the department and Deputy Director of Kazan city Baumansky District Food sales administration. In 1986, he headed the material supply base of Tatrybprom association, and then from 1987 till 1991, he worked as Deputy Director General for construction, supply, and sales of the same organization.

In 1991, he was appointed Director General of Foreign Trade Scientific and Production Association «Kazan». Since 1995, he has been holding the position of Director General of TAIF Public Corporation.

all, try to enhance our influence there by expanding our equity in it. We can't really do anything without it. To step up the production, turnover, profits, and business in general it is essentially important that our ideology is already present at the enterprise we come to. Then we expand our presence in order to realize the new petrochemical and oil refining projects that our company developed and thoroughly analyzed.

– Acquiring assets of large enterprises in Tatarstan certainly needs a serious support from the side of the President and the government, as well as established relations with other market players.

– In fact, there are no enterprises in Tatarstan that could be bought by «the one who gives more». A special policy is applied here, but not the one associated with power, but an economic policy. Technologies, in our case «know-how technologies», owned by our specialists as well, win the competition. In our case it is the know-how that is available to our specialists only. Favorable attitude of the government, as well as partners' and competitor's respect have to be won too. Here you can't do without productive work, well-trained in-house stock market specialists, powerful industrial and technological service.

– It is no secret that the stock of Nizhnekamskneftekhim you won in 2005 was sought for by Tatneft. What additional factors contributed to your victory in the tender?

– I think that the intention of the government to increase its presence in Tatneft was decisive there. Actually, it was not a sales- and-purchase deal, but a legally approved exchange. You give me – I give you, as the saying goes. The government sold its Nizhnekamskneftekhim stock to us in exchange for more valuable

Tatneft shares. The press wrote about this fact, but we made no comment. We had to pay almost \$40 million extra.

– What are your relations with the natural monopolies you depend on: Gazprom, RAO «ES», and others?

– Problems will always exist there. The science of market economy calls a monopoly a progress deterrent, which negatively affects everyone including us.

However, we think that today's Russia cannot do without the Gazprom monopoly, though the state should control this monopoly more closely and effectively to the benefit of both Gazprom itself and the other market players, as well as for the prosperity of all the peoples of Russia eventually. In my opinion, if the monopolistic distribution of feedstock and energy produces negative impact in Russia, it means that the people who work in these monopolistic enterprises abuse their power. To stop this negative impact, the monopoly must be controlled by the state. But Russia has no adequate system for it, so the commodity and feedstock exchange is actually idling. When the problem is resolved, we'll call it a natural monopoly and let it be.

– What in your opinion will the Gazprom's initiative to buy Kazanorgsintez, which is actually your affiliated company, end up with?

– There are no such suggestions on the part of Gazprom today. Therefore, the issue of selling our interest in the enterprise to Gazprom or Sibur is not on our short-term agenda either. It's rather a question of close and mutually beneficial cooperation.

– How are you going to continue concentration of the assets of the enterprises you have interest in? Do you plan, for example, to increase your interest in Kazanorgsintez during the emission of additional shares?

–The offering of additional Kazanorgsintez shares is private. It is valid only for the shareholders of the enterprise. In this case the additional issue is caused only by the need to concentrate resources and the necessity to identify the circle of shareholders who are really interested in further development of JSC Kazanorgsintez – no other reasons. We are sure to take part in this event, but we are not planning to expand our presence in Kazanorgsintez as a result of the additional issue.

– It's long enough since you became the main owner of Kazanorgsintez, and you bought your large stock in Nizhnekamskneftekhim quite recently. What do you contemplate to do as the new owner of Nizhnekamskneftekhim?

– We have a special program for Kazanorgsintez to be implemented before 2009, which includes six large projects that will enable them to produce \$1.5 billion worth of commodity products and get \$550 million of net income by 2010. The current market trends show that these targets are too modest and will be actually exceeded. Another five-year program is being developed for Kazanorgsintez, which will add \$1.5 billion and \$500 million more, thus enabling the enterprise to reach the level of \$3 billion sales and \$1 billion net profit by 2015.

Our priority task in relation to Nizhnekamskneftekhim is to develop business programs for the next 5, 10, and 15 years. After that we'll work out financial profiles for their realization. We plan to bring Nizhnekamskneftekhim up to the level of \$3 billion turnover and \$1 billion net income by 2011.

– Nizhnekamskneftekhim's debts amount to about 700 million versus its annual turnover of 800 million. Do you plan to reduce the credit indebtedness of the enterprise? Will you use the



funds of TAIF or its affiliated companies for this purpose?

– We are going to repay the debts using a combined approach, but first of all we plan to increase the operational efficiency of the enterprise itself. TAIF has no spare funds, nor opportunity to reduce a credit indebtedness which is used so inefficiently. First, we have to optimize its use, and only after that we'll start allocating funds, which are so difficult to get.

– **Since the last year you have been negotiating with Gazprom on erecting an installation for separating ethane from natural gas at Orenburg Helium Plant. This facility will enable you to raise the ethane output from 30% to 90%. How expensive is this solution? How are your negotiations progressing? What problems are left to be solved and how soon will the installation be launched?**

– The cost of this project amounts to \$35-39 million. We have identified technology suppliers and financial profiles. I think that the major strategic issues will be solved before the second half of 2006 and we'll need another year to erect the installation. The negotiations last so long because we discuss not only the erection of the installation, but its operation during the next 15 years too. We need to specify all the terms in advance. The facility itself is no more than a fragment of a big picture.

– **What are TAIF's plans in the field of oil refining?**

– This year we plan to get down to our share in Nizhnekamsk Oil Refinery and raise its turnover up to \$2 billion. We own its crude oil distillation plant, though some units auxiliary to it are the property of Tatneft and Nizhnekamskneftekhim. Today we are planning to finance the construction of such auxiliary units for Tatneft

and Nizhnekamskneftekhim at another refinery as an exchange for those at Nizhnekamsk refinery. Our main efforts are currently directed at launching our own gasoline plant that will produce high quality automotive gasoline and feedstock for rubber production at Nizhnekamskneftekhim. We also work to commission our gas condensate processing plant which will produce straight run gasoline and diesel fuel for Nizhnekamskneftekhim ethylene facilities.

– **Have you studied market outlets for the products of your new facilities? In fact this market is already developed – Russian cars are not idling due to the lack of gasoline. Let's put it like this, do you plan to deploy a network of gas filling stations?**

I'm sure we'll have no sales problems. An exchange traded commodity sells easily. So, no gas filling stations are planned for construction yet.

Investments and Finance

– What is your attitude towards joint ventures? There are several JVs in the republic. Do you think the establishment of JVs should continue?

– You and I mean different things when speaking about joint ventures. In fact, any Joint stock company is a joint venture because several shareholders own its shares and try to defend their position at the general meeting. Whether the shareholder is a Russian, a Tatar, a Japanese, or a Korean is of secondary importance. Business recognizes no borders, nor nationalities; its only criterion is the amount of profits earned for the company and taxes paid to the state.

– What do you know about recently established Tatarstan-Korean Petrochemical Company? Why was this project frozen?

– In general, the idea to create such a company is constructive and the project is promising. But the parties are still unable to align a number of their principled positions, hence there is no progress. As it has been already declared, Tatarstan targets to process 14 million tons of oil. The level of 7 million has been already reached; another 7 million are expected to be added as a result of this project. I think all the participants will make active efforts to reach an agreement in the near future, otherwise the petrochemical industry will fall into a target crisis.

– Speaking about republican investments in general, which of the investment mechanisms used in Tatarstan do you find the most effective?

– I think reinvestments are the most efficient. Credits, issue of

shares and bonds are less efficient.

– Do you think Western investments into Russia or the Republic of Tatarstan should be enhanced?

– Foreign investments are not a problem for Tatarstan. We have a lot of credit offers, credit facilities are well developed and the list of creditors completed. In my opinion, the problem is how to adopt the investments and return loans. We looked for loaners in the past, now we have to think of how to repay our debts. The general decrease of investments across Russia is caused primarily by an inefficient use of attracted funds.

– What can you say about credits granted by Western and Russian banks? Have they become cheaper for your company?

– At first sight, Russian and Western credit facilities seem to differ much in cost. But when you sum it up the commission, fees, cost of service, etc. it turns out that credits granted by Russian banks are only slightly more expensive. A lot of expenses are invisible at first, but show up later. We can get credits from Russian banks at 10% interest now. Unfortunately, TAIF and its affiliated companies have already obtained credits under 12% or higher and have to return them. Naturally, we switch over our creditors and return the credit facilities to expensive banks. The latter often reduce their credit interest in order not to lose us as a client. It has become a usual pattern for us. As a result, we can get Russian credits with interest rates nearing 11%.

– Why are credit facilities and bank loans preferred to IPO in Russia? Why are our domestic

chemical enterprises so slow in going to the stock market?

– It's because both Western and the central Russian market underestimate the Russian chemical and petrochemical industry by a factor of 5 – 15. If an enterprise floats its shares in the stock market, it will have to sell them at a price an order of magnitude lower than their actual value. The past inertia is still strong among investment businessmen, they still hope to buy up the petrochemical and oil refining industries for cheap. On the contrary, managers of the Russian chemical sector are gaining competence and try to prevent it.

– Don't you think the Western market is unaware and portfolio investors are ignorant of the current state of the Russian petrochemistry? Or may it be that they do not trust the Russian business and doubt that the profit will be used to pay dividends.

– To familiarize the market with our success and achievements, we must work systematically, continuously and in close contact with all potential investors, banks, and funds. There exist a lot of questions concerning the participation of foreign capital in our business, but it is a separate topic which we won't touch upon here. I can tell only one thing, Western companies and countries use various mechanisms to deny the price growth of Russian equities and to buy Russian enterprises cheap. This is one of the reasons why Western companies are scarce in the Russian market. I believe Russia is in need for integration and wants to expand the flow of Western investments. But it should be a two way process, and to competently organize it is our priority.