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## Леонид Алевин Пластические операции «Казаньоргсинтеза»

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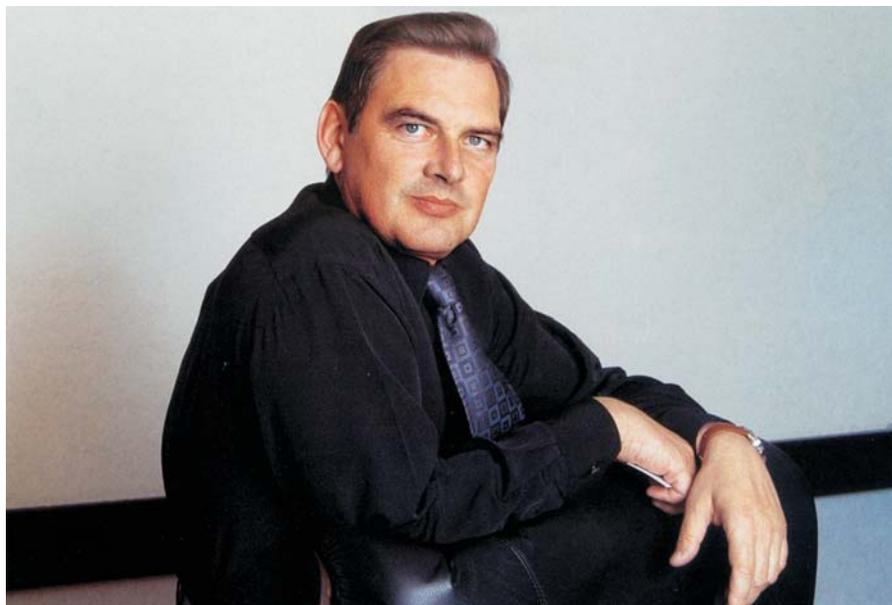
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# Direct Investments

September 2005

# Leonid Alekhin: «We will compete with foreign producers»



*OJSC «Kazanorgsintez», the largest polyethylene and polyethylene pipes producer in Russia, has started a large-scale reconstruction program this year. After the modernization, the company will output new polyethylene brands having been imported to Russia and the CIS countries so far. Leonid Alekhin, General Director of «Kazanorgsintez», said about particular features of organic chemical products market on the «Vesti» magazine round-table.*

## **If not we, who then?**

**– How is your cooperation with Sberbank is developing for the moment?**

– It started in 2004, when the OJSC «Kazanorgsintez» development program was initiated and naturally required money. It is impossible to make such a large-scale reconstruction on your own funds. The program needed credit facilities. Which Russian bank is the richest one? It is Sberbank. So, we applied to Sberbank. We told about our plans, presented our projects, and showed all calculations. We needn't much time to reason the Sberbank specialists for the Bank had already been working with TAIF, our principal shareholder. It was not the first cooperation experience. By that time, the motor gasoline plant in Nizhnekamsk constructed by PSC «TAIF» had been under credit agreement already. In December 2004, PSC «TAIF», OJSC «Kazanorgsintez», and Sberbank signed the man-

date agreement on crediting the plant reconstruction. Under the agreement, Sberbank of Russia is ready to consider the possibility of financing the OJSC «Kazanorgsintez» investment program. The total amount of the investment programs is about \$840 mln.

The first stage of the investment program includes increasing high density polyethylene output up to 600 thousand tons per year, ethylene up to 640 thousand tons per year, and construction of Bisphenol A and Polycarbonates plants with output capacity of 70 thousand tons and 65 thousand tons per year respectively. New ethylene-propylene-600 and polyethylene-350 plants with the required infrastructure are planned for the second stage.

**– What is the purpose of such a large-scale modernization?**

– Any company, if not being developed, is dying in the long run. The competitors enter the market and win. We produce low density and

high density polyethylene but it is a back number. Linear polyethylene, bimodal high density polyethylene are produced worldwide already. Polyethylene-100 pipes have already been introduced, which are manufactured with imported feedstock in Russia. If we do not hurry, competing companies will come from Europe and Asia where the industry is also actively being developed. Neither bisphenol, nor polycarbonate is produced in our country. All these products, and not of the best quality, are imported to Russia and the CIS countries. As a rule, we are supplied with products far from being of extra class quality, to put it mildly. All our polycarbonate processing companies get products on leftover principle. So, why can't we produce them ourselves? Orgsintez has the perfect raw material base. We have phenol, acetone, and ethylene oxide of our own production. Plus CO2 emissions being simply released so far, and which we are planning

**Leonid Alekhin** was born in 1955 in Chapaevsk, Kuibyshevskaya Oblast. He was the Director of Nizhnekamsk affiliate of PSC «TAIF» («TAIF-NK»), the Director of Nizhnekamsk affiliate of LLC «Tatneft-Nizhnekamsk», the First Deputy General Director of OJSC «Nizhnekamsk NPZ». The previous post held by Alekhin was the Director of polystyrene and gas condensate processing plant of OJSC «Nizhnekamskneftekhim». Since 2003 has been the General Director of OJSC «Kazanorgsintez». L.Alekhin is married, has got two children.



to collect and concentrate. And, here you are, we produce our own plastics, absolutely new. So, how can we refuse moving forward? We can't miss the chance. Otherwise someone else will occupy the market niche.

**– But if low density and high density polyethylene production is an old technology, so why do you think of its further development?**

– But we don't develop the old ones. We have new brands. Our high density polyethylene allows the production of linear and bimodal polyethylene. Neither of them is produced in Russia. We are planning to output 510 thousand tons of absolutely new polyethylene brands, which are not produced in Russia for the moment. They are all being imported.

**OJSC «Kazanorgsintez»** holds 38% of the Russian polyethylene market. It is the only Russian company having facilities for the production of both low density polyethylene (184 thousand tons per year) and high density polyethylene (196.6 thousand tons per year). It is the only producer in CIS of current-conducting PE compositions for special cables and pipes for explosives transportation in the mineral resource industry. Besides, the company has more than 170 items of organic products in its product range totaling to about 1 million tons per year. The authorized capital equals RUB 1.9 billion. As of January 1, 2005, the largest stockholders are LLC «Sintez-Management» (100% subsidiary company of PSC «TAIF» holding 46.87% of the authorized capital), OJSC «Svyazinvestneftekhim» the state-owned company (26.64%), other legal entities (11.55%), individuals (14.94%). In 2004, revenue reached RUB 11.788 billion (RUB 8.72 billion in 2003), net income – RUB 1.982 billion (RUB 889 million in 2003).

**– Can you give more details of your development program?**

– I can describe it step-by-step. The first stage is the modernization of high density polyethylene production. This year, we are to put into operation two tower reactor units with output capacity increased by 100 thousand tons (to the present capacity) to produce linear and bimodal polyethylene. By May 2006 (of the next year), the production capacity will be increased up to 510 thousand tons. And we are still planning the reconstruction of the third reactor in fall 2006, which hasn't been in our plans before. When our development program had started, we realized that there were all conditions to do the reconstruction of the tower with its capacity increase. We shall see what will be produced there, i.e. the existing or new polyethylene brands. But the technology allows us to turn to linear or bimodal polyethylene production any time we like. We have our own engineering laboratory, which has developed a unique catalyst. It is being tested now. After the tests are finished, Orgsintez will probably produce a polyethylene brand absolutely new to the world market, based on the above catalyst.

The next stage is the upgrading of ethylene production. The ethylene plant consists of four lines of pyrolysis and phenol production. The first and the second lines operate on normal butane, the third and the fourth ones on ethane. We are in lack of capacities. We need our own made ethylene, cheaper one, to make cheaper products by cutting cost price. That's why we decided to increase capacity. We may reach output capacity of 640 thousand tons per year through integrating the third and the fourth lines. Feedstock is to be complex and will include ethane, normal butane, and propane. We are planning to complete the second phase by December 2006.



The total amount of the investments made into «Kazanorgsintez» equals to \$840 million.

Along with the above reconstructions, we work a lot on the oldest plant modernization, i.e. phenol production. The work is not much in sight yet. But if you look at it, five columns are under replacement! All the equipment will be new, i.e. columns, heat exchangers, pumping machinery. We replace vapor injection systems on the plants to produce vacuum steam free, we give up phenol liquid. As a result, steam consumption per ton of phenol produced is to decrease. We shall have absolutely new production, and shall reach capacity of 66 thousand tons by the year end. By May, phenol and acetone production will be entirely computerized.

The next stage is bisphenol and polycarbonates production. The construction is in progress. Our specialists accept the bisphenol plant detail design now. The next is the polycarbonate plant. All equipment will be Russian made and ordered by September. The

basic equipment installation is to start in May 2006.

**– What is the demand for products you are going to output after the above modernizations? And what share of goods imported you'll manage to replace after the plants have been started up?**

– There is a demand in Russia. Polycarbonates are produced neither in Russia, nor in CIS. In 2004, thirty seven thousand tons of polycarbonates was imported to Russia. It is expected to have 40-42 thousand tons of polycarbonates to be imported this year. Polycarbonates give us CD, headlight. One can't break five millimeter polycarbonate glass even with a baseball bat. Temperature resistant microwave ware is also made of polycarbonates. Polycarbonate plant output capacity is to reach 65 thousand tons per year.

**– So you are to cover the whole imports flow, if not more.**

– Polycarbonates may be used much wider. There is simply not

enough of it. For example, the output of high density polyethylene is 200 thousand tons at Orgsintez today. The same volume is processed, but the demand is much stronger. We can not meet the demand and complete all orders. In other words, you have a product, you have the market. The situation will be the same with polycarbonates. There is simply no polycarbonates on the market now, that's why many productions can not be developed.

**– How much cheaper will Russian polycarbonate be?**

– It is hard to say. But it is sure to be cheaper. You just deduct transportation costs. Polycarbonate costs \$3.5-3.7 thousand per ton abroad, but its price reaches \$7 thousand in Russia. We have acquired the non-phosgene technology from the Japanese company Asahi Kasei for our polycarbonates plant. There are only two such plants in the world, i.e. in Taiwan and in Spain. So, we are to have the third one.

**– Please tell us about your cooperation with Asahi Kasei for the moment.**

– They have sold us the license, keep design works under control, and supply the basic production equipment to us, i.e. reactors. It is also Asahi Kasei who will control installation and commissioning.

**– What is the source of financing of the above projects, own funds or loan funds as well?**

– Own funds are used, together with credits from foreign banks granted to Sberbank for our projects. Foreign banks provide low interest rate, but many of them wish to bind us with obligations to produce equipment for Orgsintez in the country of the bank. But we apply for credits to Sberbank and keep the Russian industry busy. Today, we are working on supply of capacitive, heat-exchange, column equipment, pipelines, all made in Russia.

**– Do you use imported equipment?**



The buildings are finished with the plastics of «Kazanorgsintez» production which is more beautiful and long-lived. Photo: the company's swimming pool in Kazan.

– Sure. But only made abroad, not in Russia. For example, furnaces and compressors are produced only abroad. But we buy everything possible here. Our machine-building plants work well too, and their products meet our requirements. Besides, we agree upon the equipment made in Russia with our licensor. Our plants can't produce some items.

– **Are there any circumstances which may put a crimp into the development program?**

– A global catastrophe only.

– **What is the main problem arising while implementing the program?**

– We are short of time.

– **What if you apply larger construction capacities?**

– Do you know the proverb «Nine women will not bring a child in a month»? Equipment is produced based on certain technologies. We can't step out of them, otherwise we'll have defective products.

– **What did cause the decline in polyethylene output in the first HY? And when are you planning to come back to the previous figures?**

– In August 2004, there was an accident at Orenburg Helium Plant. It was a bad situation for us. But our

partners, whatever hard times they had, managed to recover the first block and re-started ethane supplies to us. Today, they supply ethane to us from two blocks of the five available. Right after the accident, I was asked many times, «How many job cuts are there going to be? How much are wages to be cut by?» But we had no cuts expected due to working below capacity. We had found another way, i.e. used ethylene supplied by Nizhnekamskneftekhim and Salavatnefteorgsintez, and ethane supplied by Tatneft. They all showed us support, and we do appreciate it. We have reached 86% of production capacities utilization for the moment.

– **How the problem of dependence on raw materials is close to you? The first tension has been relieved, then what?**

– It will depend on how Orenburg Helium Plant proceeds in its recovery. We are going to Orenburg soon to discuss the exact period of the plant start-up. We have our volume indicators decreased only. Our economic indicators have increased due to prices. But we hold the market share of 38%, so we can affect prices.

– **Holding such a market share, do you have competitors in Rus-**

**sia? And can they be called competitors?**

– Competitors will always be. We may notice Lukoil and Sibur companies here. But Orgsintez is the only corporation producing low density polyethylene along with high density polyethylene. We use high density polyethylene to produce pipes for gas pipelines, and water-supply pipes. We provide a 50-year warrantee for them.

– **Are there any problems with raw materials supply for other products?**

– Ethylene and propylene serve as the main feedstock base for all our organic products of 170 items.

– **Where is the demand for your products?**

– Both in Russia and abroad. Foreign companies buy our phenol. I'm proud to say that our phenol and acetone is of the premium quality. Our products consumers are complimentary about what we produce.

– **What part of the goods produced by Orgsintez is exported?**

– On average, 30% of annual production. It depends on prices.

– **Are the exported products cheaper than that of foreign companies?**

– Our products are cheaper for 5%-7%. That's why we are just supporting the market; the basic part is being sold within Russia.

– **Let's imagine prices on foreign markets are higher than on the Russian market. Will you meet the local market demand or turn to foreign market?**

– A strategic goal of Kazanorgsintez is to get higher profits. We are not a philanthropic organization, we are a business corporation. We are aimed at income.

**We shall stop the plant's flares burning**

– **Such a large-scale reconstruction requires specialists of more professional skills. How far is staff problem critical to Orgsintez?**



«Kazanorgsintez» holds 38% of the Russian polyethylene market. The company produces more than 170 items of organic chemical products.

– Orgsintez has always had enough skilled personnel. Such a big production should be supported with people doing well their job, working here for decades. Young specialists come to take their places. The average age of employees is 40 years. We accept young specialists from Kazan Technological University. There is a lycee based on the University. The staff is being constantly replaced.

The plant is currently under reconstruction, and is to be controlled by an electronic control system. It will be hard to employees over sixty here, and so we invite new specialists. Within the last year and a half, many retirees had left the company. Young specialists, who had been working for our company after their graduation, took up there posts. Today, we have only 127 retirees of 7,700 staff members.

**– What is the average wage at Orgsintez?**

– There used to be socialist distortion in wages. For example, I worked as a shift engineer and earned RUR120 per month, and an equipment operator earned RUB 160-180 per month. We don't have it now of course. One should be paid well for his education, knowledge, management work. The average wage is RUB14.8-15.1 thousand per month at Orgsintez. If it were not the accident at Orenburg Helium Plant, and Orgsintez had full capacity operation, we would have come to RUB 16.5-17 thousand monthly wage.

**– Such a wage is not bad.**

– Yes. In Tatarstan, Kazan-orgsintez is the third company in terms of wage level after Tatneft and Nizhnekamsk Refinery.

**– There is another approach, i.e. an employee is paid well and hence handles his matters himself.**

– We are to reach this point some day. Our company can't solely decline its social responsi-

bilities and pay, say, RUB30 thousand per month, can it? I think it's impossible yet.

**– Would it be more advantageous for you, as for a top manager, to pay high wage and forget about social matters?**

– Yes, of course. It would settle many matters, from distributing places in a sanatorium to non-core operations.

**– What is an environmental situation at Orgsintez?**

– Air pollutant emissions made 80% of the normal last year. Due to the phenol liquid refusal program only emissions are to decrease two-three times. It is expected to happen in March next year. Pollution control facilities are under reconstruction, that is a great deal of work. By mid 2007, we shall start collecting CO2 for the plant's production needs. And, the most important, our engineers are developing an installation to collect and utilize hydrocarbon blowing-off with its return into the work cycle. The plant's emissions won't burn out in flares any more, it will be moved back into production process and provide us with additional polyethylene. We are working on the basic scheme now. I think the project is to be worked out by the next year. So, we shall stop Orgsintez flares burning, if not completely, then by 80%.

**– If Russia enters WTO, how will it affect the Orgsintez production?**

– We shall see what we shall see. I can't say now what effect it will have on our company and Russia as a whole, and whether Russia needs that. What shall we gain from it? How long shall we sell our raw materials? May be we better refine it ourselves? And it is the government who must provide conditions for that. So, let's progress ourselves first, and may be then we'll be invited to enter WTO, but we shall think whether to do it or not.

**– In other words, as a refining company, you don't find advantages here, do you?**

– The Russian market is huge. It doesn't matter what kind of industry is concerned, any goods supplied here will be sold, we'll «eat up» everything. All furniture, cars, and household appliances imported to Russia are very well sold. And who wants to see us in WTO then? I'm not sure that we do.

**– Are new products offered to you by scientists?**

– In the meantime, we buy technologies abroad. Unfortunately, such is the case. If our scientists offer something, it is usually on test-tube level only. But it takes much time and effort to move from test-tube to production. Orgsintez is not the right company to support science, pull it and develop to apply scientific developments some day. No, today it is easier for us to buy a technology and build a plant. It is still the government prerogative to support and develop science.

**– Entrepreneurs complain not so much about taxation as about the problem of various inspections. What is the main obstacle in providing support to business by the government?**

– Inspections have always been and they will always be whatever the government is. I see nothing terrible here. We work according to the current legislation. There is no «grey» market. If inspections are frequent, we establish another department especially for these purposes.

We don't expect much from the government. We wish the situation would be more stable. Certain conditions and working rules should be effective for at least 10-15 years. If a law has been passed, it needs time to work under it, without any amendments. Good is better than the best. If legislation is constantly amended, inspectors won't leave us save then.