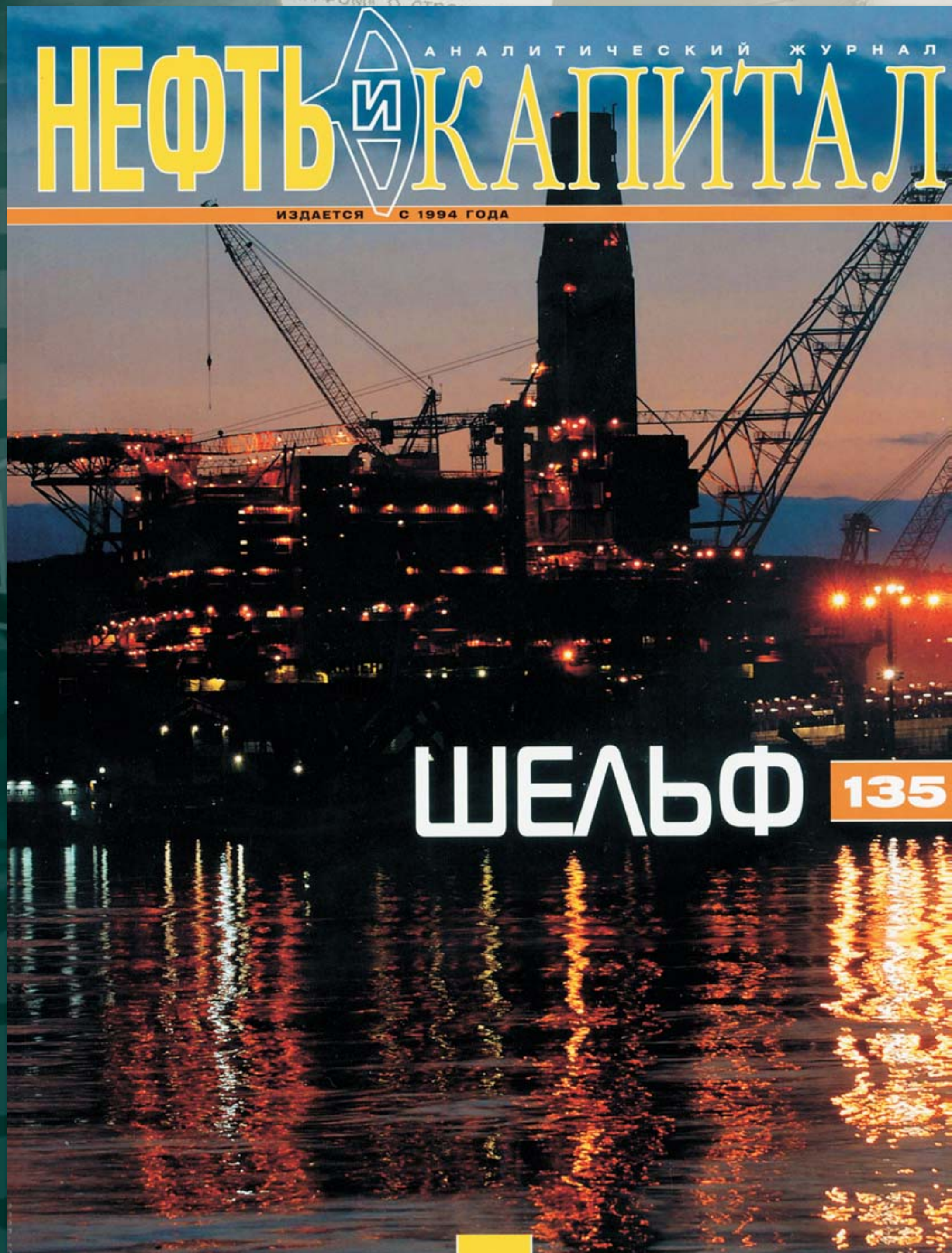

ANALYTIC MAGAZINE
PUBLISHED SINCE 1994

Oil and Capital

June 2006

«TAIF» solves raw material problem on the basis of cooperation

Having gained control over the largest enterprises of Fuel and Energy Complex of Tatarstan, «TAIF» Group of Companies has started to build new productions and to develop the raw material supply schemes, which should provide the complex with maximum stability and competitive products output. The idea of cooperation and long-term mutually-beneficial collaboration is realized in the process of choosing partners: «TAIF» offers guaranted purchasing of large volumes of raw materials at world prices, and suggests the oncoming supply of the chemical products of different processing degree. Considering the fact, that the largest Russian companies («TNK-BP», «Rusal», «NOVATEK») have shown interest in such kind of layouts, «TAIF's plan has good prospects. Moreover, collaboration with «TAIF» gives the third-party companies a rare opportunity to come into Tatarstan, where the republican Vertically Integrated Oil Company (VINK) is being established slowly but surely.

PSC «TAIF» controls the three largest enterprises of the Fuel and Energy Complex of Tatarstan: Nizhnekamsk Refinery (NPZ), «Kazanorgsintez» and «Nizhnekamskneftekhim». At present each enterprise carries out reconstruction and modernization at full speed.

To provide maximum efficiency of this powerful and growing complex, «TAIF» needs to settle at least two issues: to provide high level of production and to supply it with raw materials. The first problem is settled at the expense of modern technologies and equipment purchase. The second one is dealt with due to establishing long-term cooperation with suppliers.

Partners are needed

The development and raw materials supply concept of the enterprises of Fuel and Energy Complex of Tatarstan, supervised by «TAIF», was formulated in a special program, approved in August 2005. It was supposed, that by 2008 its realization will have provided the production of commodity output at these enterprises for the amount of RUR 226 billion, by 2010 – for 289 billion, by 2012 – for 348 billion. The total cost of the program was evaluated at RUR152 billion (57 billion had already been invested by the end of May, 2006). However, after «TAIF» had gained control over «Nizhnekamskneftekhim» at the end of 2005, and after the perspectives of realization of joint projects with the largest Russian companies had come into sight, the program required serious amendments. The presentation of the «corrected» version, which will take into account all new realities, shall take place in the second half of 2006.

Albert Shigaboutdinov, the «TAIF» Director General told our edition, that the developed complex diagram of raw materials supply is based on two main principles. First of all, it is a maximum use of own hydrocarbon resources of Tatarstan and provision of their deep processing. Besides, it is the purchase outside of the Republic of some raw materials, which are not produced on-the-spot, with the view of a long-term cooperation with suppliers, rather than on one-shot bargains.

The attention of suppliers shall be drawn by the possibility of selling raw materials in Russia at world prices, saving on its transportation as well as settling problems of raw materials supply at own petrochemical productions, which need the products, manufactured in Tatarstan. «This oncoming movement will contribute to the development of efficient operation of Russian gas and petrochemical complex on the whole», considers Shigaboutdinov.

«TAIF» has sent the offers of cooperation to «Tatneft», «Gasprom», «Sibneft», «SIBUR», «Russneft», TNK-BP, «LUKOIL», «Surgutneftegas, «Rosneft» and «NOVATEK». «TAIF» has already concluded framework agreements with some of the above mentioned companies. By the end of the year the company is planning to sign a number of contracts.

There will be our own oil

From the primary-demand raw materials, required for the enterprises of «TAIF», Tatarstan has only oil and insignificant volumes of accompanying oil gas at its disposal.

The local oil is more than enough for total loading of Nizhnekamsk Refinery (NPZ), forming a part of «TAIF-NK» CJSC: the capacity of the plant amounts to 7 million tons per year; and a the total production capacity of the Republic is about 30 million tons per year. During the current year «Tatneft», in accordance with the resolution of the Security Council of the Republic of Tatarstan, fulfills

«TAIF» is ready to purchase raw materials for its own refinement at world prices

steady deliveries of 650 thousand tons of raw materials per month. So the plant is capacity-filled. Correspondingly, the volumes of straight-run gasoline supplied to «Nizhnekamskneftekhim» are as great as ever (The total volume of deliveries for year-period would be no less than 1.1 mln tons).

However, it does not mean, that the problem of supplying the plant with oil has been completely settled. The quality issue of the supplied raw materials is rather acute. The oilmen, deprived of supervision over NPZ by order of RT Security Council (see «All according to the plan» in «OaC» №12, 2005), deliver high sulfur oil to ELOU-AVT-7 Crude Oil Distillation Unit. And though formally all raw materials are delivered to the plant from the system of «Transneft» oil-trunk pipeline and should be Urals blended project, in practice, the arrangement of oil pipelines allows to deliver oil directly from «Tatneft» oil field. And it really does take place, so the concentration of sulfur in the oil output at NPZ is rather high. Last year «TAIF» was forced to improve raw materials by adding gas condensate to it; and this provided the operation of the plant at a critical duty.

By present time, not without some assistance of the Tatarstan Government as it may seem, the company managed to agree about some standard, which would limit sulfur concentration in delivered oil to 1.8%, and its density to 0.860 kg/m^3. But operations with raw materials of such quality significantly decrease the efficiency of oil refining. «We take into account settlement of this problem through different versions. However, temporary options do not suit us. We would like to solve it once for all» – told the Head of «TAIF» to «OaC».

The most popular option is the development of own oil refining «wing». The oil coalition supervised by «TAIF» and up to this time including two small oil companies (MNTK and «Druzhba») operating in Tatarstan, soon will be increased due to taking over three Tatarstan enterprises. Their names are not known yet. According to Shigabutdinov this merging will provide the increase of petroleum production from 200 thousand tons per year to 350-400 thousand tons per year, in 2006. And in 2007 the own productive volumes of «TAIF» should reach 1 million tons, including the planned purchase of few small companies in Volga and Orenburg regions. Besides, at the end of the current year «TAIF» once and for all will define the direction of future external expansion; after that it will take part in auctions for the right of oil exploration and the development of advanced oil areas of land (according to existing information, the Eastern Siberia and the North of Russia are discussed). It is very likely that the development of new lands will be carried out in the partnership with one of the largest VINK .

As for petroleum gas it is produced in little quantities in Tatarstan: in 2005 the volumes produced by «Tatneft» amounted to 737 million cubic meters. 95% of it is supplied to Minnibayevsk GPP (Gas Processing Plant) in the «Tatneft» structure, the rest is used in the oil fields as a fuel. About 83 thousand tons of ethane is extracted annually from the 56% of gas delivered to the plant. To provide the ethane extraction from the whole gas delivered to Minibayevskiy GPP and to produce in total 145 thousand tons of this useful petrochemical feedstock per year, it is required to entirely reconstruct the production. The Security Board entrusted the fulfillment to «Tatneft».

«TAIF» expects IPO

In 2007 «TAIF» is going to carry out the initial public offering of its shares at the international exchange. As Director General Albert Shigabutdinov said it is planning to offer for sale no less than 20% of shares. The program of preparation for IPO is currently developed and will be made public at the end of 2006. At present the company is in search for partners among the largest international banks.

Shigabutdinov considers the steady raise of the company capitalization to be the most important task in preparation for IPO. In the nearest three-four years it should grow by several times. One of the factors of this growth is the increase of control over «Nizhnekamskneftekhim»: this year 25.1% of shares, belonging to «Nizhnekamskneftekhim-Management & Co.» Limited Partnership has been transferred to the trust management of «TAIF-Invest». Thus, «TAIF» is now supervising 79.3% of shares of this largest petrochemical enterprise in Russia.

Besides, it is required to create the institute of independent directors, to introduce western standard financial recordings. Now the structural reforms in «TAIF» Group of Companies are being planned. The scheme is not divulgated yet, but Shigabutdinov does not exclude the possibility of conversion to a single stock. «I think it will take place next year, if the shareholders take this decision» – he told to «OaC».

TNK-BP promises ethane

In the list of resources, purchased by Fuel and Energy Complex of Tatarstan from the outside companies are liquid petroleum gas, ethane and other condensed gases (pentane, butane, fractions and propane-butane mixture).

«Kazanorgsintez» is operating on this ethane. The only Russian ethane pipeline directly connects it with Orenburg Helium Plant, forming the part of «Orenburggasprom», the subsidiary company of «Gasprom». The annual delivery up to 2004 is about 350 thousand tons per year at a demand of 450 thousand tons per year (and in future – 1.2 million tons per year). However, in August, 2004, the fire at the helium plant put out of operation most part of ethane-separating capacities; and «Kazanorgsintez» felt to the full what it was like to be dependent on the monopolist provider. In 2005 the plant owners could provide only 37% of the raw materials planned volumes, as a result the decrease of polyethylene output in comparison with 2004 reached 13.5%. Naturally, in this situation «TAIF» stirred up a search for alternative ethane suppliers for «Kazanorgsintez».

In December, 2005, «TAIF» signed a memorandum on mutual understanding with TNK-BP, intending a long-term contract (for 20-25 years) on ethane supplies. TNK-BP will separate ethane at Zaykinskiy GPP in Orenburg region.

When the contract was signed, the executive manager of TNK-BP for gas projects Victor Vekselberg told mass media, that the discussed matter was the deliveries of 450-500 thousand tons per year. To provide these volumes, TNK-BP is going to build the second extension of Zaikinskiy GPP, increasing the output of the plant from 1.9 billion cubic meters to 3.1 billion cubic meters per year. This object will cost about $200 million.

In accordance with the memorandum, «TAIF» is going to build a pipeline for ethane transportation from Zaikinskiy GPP to the pipeline Orenburg Helium Plant-Kazanorgsintez. By Shigabutdinov's estimation it will cost $100-200 million (it depends on the route).

According to Vekselberg, no legal counsels will be set up to realize the project and each side will finance its own part of work without any assistance.

The signing of the contract is planned to the end of the current year. The real deliveries of ethane might begin in 2-3 years.

It is clear, that the readiness of TNK-BP to provide long-term deliveries of ethane of such great volumes to «TAIF» has practical interest, defined as needs to utilize petroleum gas, and also the possibility to provide own manufacturing lines with products of petrochemical complex of Tatarstan.

At the same time it should be remembered, that the realization of «TAIF» and TNK-BP project depends directly on «Gasprom». In order to get the access to ethane pipeline it is required at least to take ethane for pumping from Zaikinskiy GPP after resumption of works at all Orenburg installations and the planned increase of their capacities; and at most – to come to agreement with «Gasprom» in terms of costs. It's obvious, that giving the permission for cutting-in, «Gasprom» will want to solve some its own production problems. In case with Tatarstan the gas monopolist is interested, in particular, in manufactures of plastics, synthetic rubbers, fragrant substances, required for petrochemical enterprises of «SIBUR». Everyone knows about the multiple attempts of «Gasprom» petro-chemists to establish a joint venture in Tatarstan (without any success, because both sides aspired exceptionally for a controlling stake of shares). But the mutual interest is evidently kept. We may suggest that the working group created by «SIBUR-Holding» and the Tatarstan Government this year is engaged in search of the compromise.

Besides, «Gasprom» and TNK-BP are in certain relationships, and admission of the last one to ethane pipeline might become «a token coin» in negotiations between these companies, for example, by Kovykta or «Udmurtneft».

Plant needs the condensate

Soon stable gas condensate will be added to the list of hydrocarbon raw materials, supplied to Tatarstan for processing. Gas condensate processing plant with designed capacity of 1.2 million raw materials per year is planned to be put into commercial operation in Nizhnekamsk in June.

This production line will manufacture one-run gasoline (500 thousand tons per year) and diesel fuel (400 thousand tons per year). These additional volumes (added to 1.1 million tons per year, produced at Nizhnekamsk NPZ) will allow to completely settle the problem of raw material supplies to the «Nizhnekamskneftekhim» ethylene production. Its capaci-

Nizhnekamsk gasoline

At present there has been produced 55 thousand tons of gasoline per month, of Euro-2 standard at Nizhnekamsk. The half of them is realized through «Tatnefteproduct» gasoline stations, under «TAIF» supervision (the company provides about 30% of retail markets in Tatarstan), the other half is exported. Now the option of «Tatneft» buying this fuel, in order to sell it via retail network to the oil company, are being discussed.

At present Nizhnekamsk NPZ capacities are being increased: gas oil treatment capacities – up to 1.4 million tons per year, gasoline – 1 million tons per year. In a year it is planning to begin «Euro-4» gasoline production and this will require a radical intensification of capacities for purifying of gasoline components from sulfur.

ties after reconstruction by 2008 will have been increased up to 600 thousand tons per year (in 2005 – 465.3 thousand ton).

The cost of condensate plant establishment is $38 million; estimated service life of the project is 3 years.

It is expected, that in June the agreements on delivery of gas condensate to Nizhnekamsk will be signed. Among the most probable suppliers are «NOVATEK» and «SIBUR»: the part of export lines will be switched over to «TAIF». According to Shigabutdinov it became possible at the expense of more profitable conditions offered to suppliers, than while exporting the raw materials».

Let's add to it, that beginning from this year «NOVATEK» has commenced the deliveries to «Nizhnekamskneftekhim» from Purov plant by railway of butane fractions for stabilization of gas condensate. Director General of «Nizhnekamskneftekhim» Vladimir Busygin told «OaC», these deliveries comprise 15 thousand tons per month and in the nearest future they will be doubled. In its turn «NOVATEK» is interested in deliveries of Tatarstan polymers (polyethylene, polypropylene, sibylline, butyl-rubbers) for their productions.

Petrochemical advantages of catalytic cracking

The deepening of oil refinery is a significant reserve for product line extension and future petrochemical redistribution, which «TAIF» is going to bring into play in full volume.

So, this year «TAIF» has put into operation Nizhnekamsk plant of motor gasoline. The base of it is a catalytic cracker, refining vacuum gas oil of Nizhnekamsk NPZ. The capacity of this plant in terms of gas oil is about 850 thousand tons per year, in terms of commercial gasoline – it is up to 600 thousand tons per year.

Except for gasoline the cat-cracker produces about 200 thousand tons of butane-butylenes and pentane- propylene fractions. They are the feedstock for rubber production at «Nizhnekamskneftekhim». Produced here, low-sulfur butts of fuel oil (about 100 thousand tons per year) are valuable raw materials for hydrocarbone black production, purchased by Nizhnekamsk and Omsk plants of technical carbon. In connection with enlargement of gasoline production at Nizhnekamsk the output of gas fractions will increase up to 400 thousand tons per year (see also «Nizhnekamsk gasoline»).

With «Rusal» into depths

Within the framework of Deep Oil Refining Program at Nizhnekamsk NPZ, the construction of Heavy Residual Stock Treatment Plant is also taking place. After it starts-up the depth of oil refining will be about 96%, and the production of commercial black oil will be closed.

The partner of «TAIF» in this project will be «Rusal» company, the largest in Russia and the third in the world manufacturer of aluminum. On April 28, 2006 «TAIF» and «Rusal» signed a memorandum, stipulating the creation at Nizhnekamsk of a Joint Venture for heavy residual stock processing into coke, which in its turn is required for production of anodes, used in aluminum manufactures. The output of the coke will be about 400 thousand tons per year, about 2.5 million tons per year of light-oil products (including 400 thousand tons per year of straight-run gasoline) and 970 thousand tons per year of propane-butanes. The raw materials for the new production will be black oil and tar oil, produced by Nizhnekamsk NPZ (2.25 million tons per year), as well as remaining pyrolysis gums of «Nizhnekamskneftekhim» and «Kazanorgsintez» – in total up to 300 thousand tons per year.

The cost of the project, $400-700 million, is subject to complex configuration peculiarities.

As Shigabutdinov told «OaC» the JV should be created on parity basis. In this case «Rusal» undertakes two thirds of the project financing, correspondingly, «TAIF» – one third. By current estimation, the construction process will take maximum 3 years.

Signing of the contract with «Rusal» is planned for the second half of 2006.

In conclusion, it's worth saying that «Rusal» is discussing the possibility of building the aluminum plant at Nizhnekamsk in partnership with «Tatenergo». In future «Tatenergo» will have energy resources at its disposal, which will be quite enough for the new production.