

ЖУРНАЛ О РЕАЛЬНОЙ ЭКОНОМИКЕ

ПРЯМЫЕ

№1/2006



ИН ВЕСТИ ЦИИ



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Подписной индекс: 82180

ISSN 1727-1304



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MAGAZINE ABOUT REAL BUSINESS

Direct Investments

January 2006

The Wheel of Facture



Vladimir Busygin is the head of the company that is a leader of the Russian petrochemical branch- OJSC «Nizhnekamskneftekhim» [NKNK]. The production is developing well, but according to its General Director, this process is influenced by the lack of financial recourses and by high banking credit interest rate. These and other problems of the Russian petrochemical complex were considered at the round table discussion, organized by the «Vesti» magazine.

The polymeric dimension

– Which part of Russia's market is taken by your company's output?

– At first let me say that Tatarstan's chemical and petrochemical manufactures supply about 10% of Russia's commodity output. «Nizhnekamskneftekhim» OJSC is the second-best after «Tatneft» among the Republic's enterprises [according to the «Expert» magazine's rating, it takes the 50th place by the sales volume in 2004]. If we con-

sider its part on the Russian chemical and petrochemical market, it will come to 2 – 2.5%.

– What is NKNK's main product?

– In accordance with both production volume and contribution to the company's general profit, these are the rubbers [SKI-3, Butadiene rubber and Cis-butadiene synthetic rubber PBR Nd], and ethylene, styrene, ethylene oxide, mono-ethylene glycol and simple polyesters.

– Who are their main consumers?

– They are the domestic tire plants, including OJSC «Nizhnekamskshina», the enterprises of Ukraine and Belarus, general mechanical rubber goods and plastics producing plants. We have mastered a new type of service- we supply the entire complex of various rubbers necessary to produce tires. The consumer receives a package with different kinds of preparations, based on which he

Vladimir Busygin was born in 1949 in Krasnokamsk-town in Permskaya oblast into a working man family. In 1969 he graduated from the Krasnokamsk Pulp and Paper Technical School cum laude, and in 1974 he finished Perm Polytechnic Institute, specializing in «Non-organic substances and chemical fertilizers technology». After graduation he was sent to the Berezniki Nitrogen Fertilizer Industrial Complex. In 1981 he moved to town of Rossosh in Voronezhskaya oblast, where he worked as a substitute and then as a head of the Engineering and Technology department of Pridonsky Chemical Plant. In 1986 he was offered a post at «Org-minudobreniya» trust production administration. In 1987 he was appointed for the position of Novomendelevskiy Chemical Plant Launch Director. From 1988 until 1992 he worked as a Chief Engineer at L.Y. Karpov Chemical Plant in Mendelevsk. Since March, 1992 until January, 1995 he took a position of a Technical Director of «Mende-Rossi» Soviet and Czech joint venture. In 1995 he was promoted for the position of L.Y. Karpov Chemical Plant Director General. And in January, 1999, was appointed for the position of «Nizhnekamskneftekhim» OJSC Director General.

In 2001 he was awarded the National Prize of the Republic of Tatarstan in science and technology; V.M. Busygin was titled the «National Prize of the Republic of Tatarstan in science and technology laureate». He's also the winner of the «Russian National Olympus» award in «Industrialist of the year» nomination. In 2003 he was granted the annual national «Person of the Year» award for successful social programs' realization. He is a candidate of technical sciences, has more than thirty tracts and more than 60 inventions, 16 useful developments and 15 know-how elaborations.

can start producing tires. We altogether supply about 45 production items to 50 countries of the world.

– **Whom do you consider your main rival?**

– In the isoprene rubbers field I can name the LLC «Togliattikauchuk» and CJSC «Kauchuk», among the polybutadiene producers- these are JSC «Efremovskiy

zavod SK» and JSC «Voronezhsin-tez-kauchuk». In the foreign market these are the world-famous Lanxess, Exxon, Goodyear and Bayer.

– **At the expense of what, do you think, it is possible to reduce the prime cost of the output?**

– Every year we get less of those opportunities. Some time ago we

could buy the raw materials at Russian prices, and today we pay the international price. The energy supplies rise in price by 20-25% a year.

Yet, it's still possible to reduce the prime cost at the expense of the reduction of energy supplies and raw materials expenses. Our company's advantage is the ability to process any raw materials, including the relatively cheap ones.

We plan to spend RUB 1.7bln on realizing the 2006-2010 energy economy program, aimed at lowering the electric power consumption.

– **You are monopolists when it comes to certain products. What is the highest limit you can raise the prices to?**

– We don't go over the world prices. We can't let our customers think that it's better to buy the raw materials abroad rather than here.

– **«Nizhnekamskneftekhim» OJSC improves its performance year by year. At what expense do you raise the production volumes?**

– Back in 1999, when the company's management had changed, we created a strategy of its modernization and reconstruction. Its major goals are: shifting to the next level from the monomers production and to start producing the polymers. The benefit is the growth of the added cost, and then getting additional profit.

The volume of the investments aimed at the fixed capital for the period of 1999- the first half of 2005, amounted to RUB 19bln. During this period we began to produce new output: polystyrenes, chlorobutyl rubbers and bromobutyl rubbers, the new simple polyester brands, the ethylene complex capacities have also been increased; we began to get isoprene using the single-stage method. Ethylene is the initial material for many petrochemical products. Isoprene provides the rubber for the mass tires.



«Nizhnekamskneftekhim» OJSC is one of Russia's largest petrochemical production complexes, the products of which are exported to more than 50 countries of Europe, America and Far East. It was launched in the summer 1967. Currently The Company's production complex embodies 10 Major Plants, 10 Divisions [Railway Transport, Ethylene Pipeline Systems, and others], 7 Centers [including Research & Technology, and Design]. The range of products output comprises more than one hundred items. Major commodities are: monomers as feedstock to produce rubber; synthetic rubber of general and specialty purpose; other petrochemical products [ethylene oxide, propylene oxide, alpha-olefins, polystyrene, surfactants, and so forth]. «Nizhnekamskneftekhim» OJSC is today a single or dominating in CIS producer of linear alpha-olefins, propylene oxide, polyesters, ethylene glycols, styrene, polystyrene, as well as diverse synthetic rubber types [isoprene, butyl rubber, EPDM] used in tire production. The major shareholders are: JSC «The Central Depository of the Republic of Tatarstan» [the nominal holder of 35.2%], PSC «TAIF» [25.6%]. During the period from January to October, 2005, NKNK increased the marketable products output by 38.1%, which is up to RUB 32.49bln more compared to that of the previous year; it increased the sales by 42.4%, up to RUB 33.765bln. Within the ten months of 2005 it has produced 75.767 thousand tons of butyl rubber [15.1% growth], 140.27 thousand tons of isoprene rubber, 233.991 thousand tons of styrene [13.8% growth], 62.487 thousand tons of polystyrene [58.1% growth], 165.299 thousand tons of propylene. Within the nine months the balance sheet profit has grown by 18.3% up to RUB 3.105bln, compared to the similar period of 2004. The assessments to the consolidated budget of Tatarstan during this period amounted to RUB 1.708 bln.

The profit from all the applied projects has amounted to about RUB 3.6bln. Within these years we have achieved the record-beating production rates, which have never been higher before.

– **Recently, your company is constantly mastering new outputs' production. How do you determine what to stake on?**

– We carry out our activity in accordance with the documents developed and adopted in Tatarstan. First of all, it's the President's 2004-2008 Oil-Gas-and Chemical complex development Program. Besides, there are the 2004-2010 Tatarstan Innovational Activity Stimulation Program, the 2005-2006 and 2006-2010 Energy consuming and Energy saving Republic Program.

Besides, the market itself points out the direction. For example, due to appearance of the new modern types of production, butyl rubber is not in former requisition anymore, so by 2010 we won't sell more than 330 thousand tons; whereas the demand in halobutyl rubber is growing by 7% annually. Naturally, we decided to master its production. So in 2004 we launched Russia's first industrial halobutyl rubber manufacture.

– **Does the industrial complex have any underused capacities?**

– In particular, the bivinyl plant and hydrocarbon raw material capacity. On the other hand, the other sectors, halobutyl rubber production, for example, are overused. At the project capacity of 75 thousand tons we produce 100 thousand tons. We have decreased

the isoprene rubber production, for the demand has dropped both in our country and abroad. For the same reason the alpha-olefins line [aimed at synthetic oils production] is underused. We try to use the standing capacities for other purposes. This happened at the synthetic rubber plant, when we re-oriented the manufacture, and having invested rather small financial means, put the capacity into operation.

– **Which output is the most profitable?**

– Our production can be conventionally divided into two industrial zones- the rubber zone and the ethylene zone. A few years ago ethylene was the most profitable, while the rubbers' prices stayed low. Now the situation has changed. Today we are working on the verge of breakeven at the ethylene production zone, and get the profit from the rubber production zone only. The most profitable outputs are halobutyl rubber and which are used in tire industry, machinery construction, etc.

Later, when we start up the polypropylene production, the general profitability will increase, for we are switching from monomers to polymers, which have much higher prices. If we sell ethylene at USD 500-600 per ton, polyethylene and polypropylene cost at least USD 1 thousand. The demand in polymers is constantly increasing. They are used in many fields of industry [film, dishes, package production, etc.]

– **Some analysts insist that the petrochemical companies' modernization programs were developed by the Soviet Oil-refining Ministry.**

– This statement is far from being real. When I joined the company in 1999, there wasn't a single project here. The Chairman of the Director's Board was Nikolai Lemayev [1963-1985-the Director of NKNK, 1985-1990- the substitute then the Minister of Oil-refin-



ing and Petrochemical Industries]. He told me that before there were many projects but no money, and then, there was the money, but no projects. All of our modernization programs foresee the usage of the technologies that no one heard of at the Soviet times. For example, the production scheme was developed together with St. Petersburg Synthetic Rubber Scientific Research Institute. Or, the method of getting the halobutyl rubber was for a long time known to only two companies in the world, namely Exxon and Bayer.

We have contacted Bayer and asked them to sell us the halobutyl rubber production technology. In response they laid down crushing conditions: to sell the rubber together for 7 years and only then to buy the production method. I immediately refused, and we started to work on the production method alongside Yaroslavl Institute «Yarsintez». We made a pilot plant and now we are successfully working according to the domestic technology.

– What is the reason of your output's export amount decrease in 2005?

– As the Russian market develops we supply the enterprises with our products. In respect of price

the Russian market might be even more favorable than the external. In 2004 we have exported 55.6% of the whole commodity output. In 2005 the number is slightly lower [53.6% within 10 months], as export-oriented styrene shipping has decreased because of the polystyrene production capacity growth. Styrene in a monomer, it is used to obtain polystyrene and then to get plastics. Polystyrene is used in machinery and aircraft construction, etc.

– What are the relations between NKNK and Michelin Company, the world's largest tire producer?

– Our company co-operates with Michelin in questions of halobutyl and polybutadiene rubbers production and sales to the foreign consumers. The industrial lots of bromobutyl rubber BBK-232 have been supplied to them since June, 2004. For a year, the Michelin specialists have analyzed the statistics of the physical and technical properties of this rubber during the tire production process at their plants. In December we discussed the obtained results and created the plan of further co-operation in this direction.

Since April, 2005 «Nizhnekamskneftekhim» OJSC has been sup-

plying about 5-6 thousand tons of a month. Our partners not only provide us with information about the quality demands of the foreign consumers, but also give us the necessary recommendations. Currently we are dealing with the questions of packing the rubber. Our co-operation with Michelin will go on.

The heat-electric generating station building

– If your major raw materials supplier, «Tatneft», builds its own oil-refining plant, will you have any trouble with raw materials supplies?

– Our condition will only improve. If there is one more oil-refining plant in our republic, there will be about 1 mln tons of additional gasoline, which won't be taken away and will be processed here. Together with that there will be produced some butadiene, butanbutylene, propanpropylene and other fractions [which are the NKNK's raw materials – «Vesti»].

– So you don't have any problems with raw materials?

– There's another question- we have to be competitive, and to be able to buy the raw materials, so that such monopolists as «Gaz-

«Nizhnekamskneftekhim and company» special partnership was established in 1997. Among its founders, except for «Nizhnekamskneftekhim» OAO, were PSC «Olympic city», and «IC IBH», which later exited the owners' staff. Then, without informing the investors, PSC «IC IBH» was included to the «absolute partners» list. When «Nizhnekamskneftekhim» started to develop and to get profit, PSC «IC IBH» refused to return the shares that were given to the special partnership on asset management terms. «Nizhnekamskneftekhim» wins the numerous court examinations, but PSC «IC IBH» still takes attempts to solve the case in its personal favor.

prom» and «LUKoil» don't only export them, thinking it is more profitable.

– You speak about the constant energy carriers and raw materials prices growth. They may reach the world level any day now and it will inevitably reflect on your output's prime cost...

– We are already buying the raw materials at the world's prices. The electricity charges are growing, so in order to protect our manufacture we have created a heat-electric generating station reconstruction project and the «Neftekhimenergo» enterprise together with «TAIF» and «Tatenergo». After reconstructing the Nizhnekamsk Cogeneration Plant #1, we shall get cheaper energy supplies without investing significant finances. After modernizing the cogeneration plant we shall sup-

ply the energy and heat resources not only to NKNK, but to other industrial companies. The kWh electric power and heat calories prices will be much lower than today's, considering the application of new technologies. The first stage of reconstruction should be finished by November, 2006. As a result we expect to be saving up to 200-250mln cubic meters of the natural gas which is used as industrial fuel.

When friends do not agree

– What do you think is the reason of the prolonged argument about the 18% of «Nizhnekamskneftekhim» shares that were given to the special partnership in 1997?

– The entire special partnership system wasn't thought over.

They were first of all supposed to defend the interests of the industrial complex, but instead the partnership started to self-center, trying to appropriate the 18.3% of the company's shares. Now these papers are at «Nizhnekamskneftekhim».

– Has this story been dotted yet?

– No, but we have a 20-thousand staff, so we can protect ourselves.

– In light of the number of as-sizes what would you change in our remedial legislation?

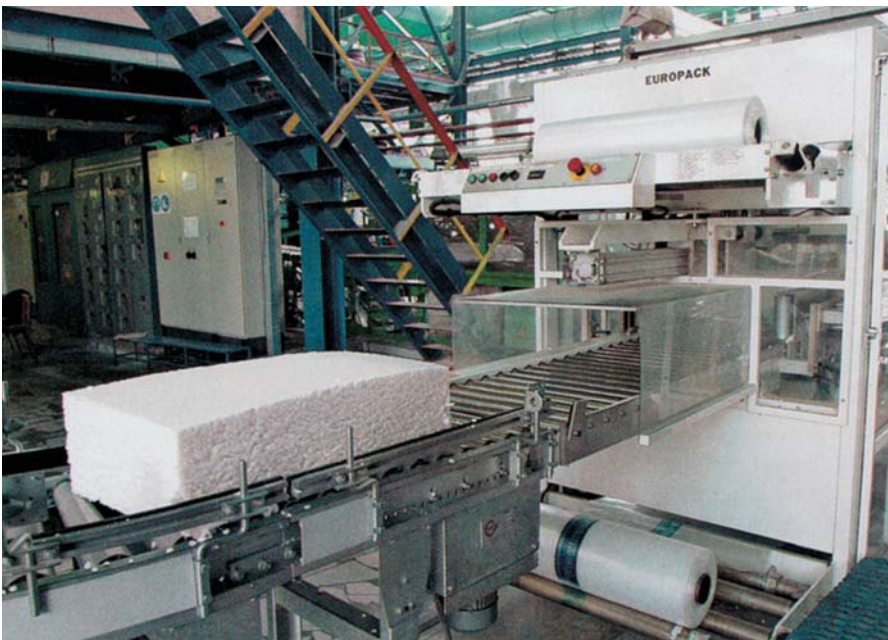
– I think there is no basic law that would protect the enterprise from the raiders' takeovers. Currently the State Duma is viewing the corporate defense law. If it is passed, the problems of many Russian companies will be solved.

– The recent information is that «TAIF» owns 52% of your company's shares, having received the government's shares on asset management terms...

– At the moment «TAIF» has 25% and one share. We can speak about the asset management only when the transaction is registered at the Antimonopoly Committee. «TAIF» and we co-operate quite well, the company is building the gas condensate distillation plant in Nizhnekamsk, which will give us the additional 500 thousand tons of liquid raw materials for thermal decomposition.

– Tatarstan government has often made the companies to supply the output to the particular clients, explaining that this is being done for the benefit of the republic's economy. Have you had similar situations?

– This cannot happen to us. There is PSC «Tatneftekhiminvestholding», which controls the co-operation between the petrochemical enterprises. And there is raw material distribution agreement between the Tatarstan's companies.



I've got an «Idea»!

– How interested are you in creating a petrochemical exchange?

– The republic's government has decided to establish a digital petrochemical exchange. It will be created step by step, first of all fulfilling the requirements of Russia's small and medium-size enterprises. Among the participants are «Tatneft», «Kazanorgsintez» and «Nizhnekamskneftekhim». Our output will be displayed at the exchange.

It's hard to create a market. Sometimes the oil overshoot may result in price collapse. Therefore we need experienced specialists to retain the sales volumes and prices.

– In 2004 the small and medium business industrial development district was established on the basis of «Nizhnekamskneftekhim». Tell us a little about it.

– There are similar districts in Italy, Korea, Germany... The Nizhnekamsk industrial district is established on the basis of «Nizhnekamskneftekhim» OAO. The choice of our company wasn't accidental. «Neftekhim» produces chemical raw materials, which are further used by small and medium businesses. The NKNK management is planning to build the competitive polyethylene and polyolefin productions. The availability of the wide range of polymeric materials gives the idea of creating the attractive redistribution company here.

At the moment there are plenty of imported polymeric commodities and items. The industrial circle's task is to create a field of operations for the small and medium businesses. «Nizhnekamskneftekhim» perspective projects, such as building the EPS production with the capacity of 40 thousand tons a year, polypropylene production with the capacity of 180 thousand tons a year, the linear alkybenzol and polyethylene, and



ABS-plastics production facilities will serve as the achievements of the goal.

– What is your exact task in the process of establishing the district?

– We prepare the industrial grounds, offer services, supply the plants with energy resources and draw materials. This is our market. One company is ready to buy 10-12% of all the produced polypropylene. The output will be used to make the plastic packages for our rubbers.

– Tell us about your co-operation with «Idea» industrial park.

– Together we work on establishing the thickening rubber production for the whole motor-car industry. There are some other projects. For example, we need the molybdenic catalyst. We buy it abroad at a very high price- USD 110 per kilo. At the same time we have the low-molybden catalysts wastage. Together with the industrial park we are creating the technology of extracting molybden from the wastage. The amount of mutually-attracted investments comes to 25mln Euros.

– Do you have any common projects with the Sberbank? What are they?

– We work very closely with the Sberbank of Russia. It has, in particular, given a 7 year-long loan at

the amount of USD 40mln for the cogeneration plant KGU-75 construction at the heat-electric generating station #1.

Under the government's wing

– Today the government is getting its hands on everything that has become private property in the 1990s. Is the government an efficient owner do you think?

– I think that our government has returned the goods that have been unwisely sold out before. I think that oil, gold and other minerals producing companies should be owned by the government, if not completely, then at least may it have the control packet of shares. The country is large, so there will be the professionals who can manage to use them effectively.

– Are the patterns of ownership significant in this case?

– I don't think so.

– What tax do you consider the most harmful?

– As an obedient taxpayer I have to pay all of them. I find it hard to judge, which one is useful, which one is bad. Taxes are taxes.

– Even at current rates?

– Why not? In Germany taxes are not smaller than in Russia. Currently the VAT tax rates are being negotiated. If they are reconsidered, that may help our industry.

– If you could meet the President, what will be your first-priority problem to discuss?

– There are plenty of problems. The major one is, I think, lack of funds to reconstruct the manufactures. It is essential that some part of the stabilization fund is invested in plants' modernization; the interest rate at the banks needs to be lower. This will give a new turn to the rise of Russian industry and economics in general.

Healthy interest

– «Nizhnekamskneftekhim» is actively building houses for its employees. What are the conditions of getting a flat?

– For the past seven years 250 new flats a year were built and distributed according to the check-out line. Besides, the company has 30 family halls of residence. As the staff is annually renewed due to the young employees (up to 500 people a year), and the newly-created families, the number of those who are waiting reduces slowly. There were 7061 of them in 1999, and 4500 by the beginning of 2005. In 2005 we have built 20 thousand square meters of accommodation, but it will be distributed on the paid basis.

– As a director you might find it disadvantageous to support the social sphere. What can make you pass the «sotsialka» to the municipal ownership?

– The housing resources that were on the company's balance

have almost been passed to the city. It is rather good. We have about 200 thousand square meters of the halls of residence left. We cannot get rid of them yet, because the staff is being constantly renewed. When I came to the company, the average employee's age was about 48 years old, now it is 41.

We also have subsidiary plots. We are ready to give them to a proper, real owner. But at the moment we have to devote ourselves to agricultural enterprises, although it is not our type of activity. In 2006 the subsidiary plots subdivisions are not provided, so they have to go on self-repayment.

When we pass the social sphere to the municipal balance, we shall lose a number of employees, for there are about 800 people in the company's administration managing the social issues.

– Do you monitor the employees' health and the ecological situation at the company?

– We are urged to look after the ecology not only at the plant, but in the city and in the district also. According to the ecological program, adopted by «Nizhnekamskneftekhim», we spend about RUB 80-100mln a year for these purposes. For example, some time ago, the water from the plant would flow into the nearest rivers. We have processed and employed a project costing RUB 45mln, and now all the sewage goes to special collectors, where it is being cleaned, and returns back to the

plant. Implementing single-stage technologies, we partially avoid the CO2 emission into the atmosphere.

8,000 people annually go through different preventive measures. We watch over our employees' health, for it depends not only on ecology, but on their age also.

– «Nizhnekamskneftekhim» supports football and hockey teams. Can they live without sponsors?

– I am convinced that professional sports teams cannot manage without large industrial companies. Even the NHL doesn't have self-repaid teams.

– Why do you need sports?

– First of all, our children need it. Today, there are 400 children going to our children and youth sports school. Most of them will not become outstanding sportsmen. Even if 5% of them will take sports up professionally- it is very good. The rest 95% will be in good health at the universities and will then come to our company. These children are kept away from the streets and bad habits, such as alcohol and drugs. Our nation's health is of vital importance to us.

– Your former substitute Oleg Vlasov is now the mayor of Nizhnekamsk. Do you think that business should do into politics?

The main policy is the economy of our company. Though there are more members of the «Yedinaya Rossiya» PP at our plant, rather than C.P.S.U. members in Soviet times.