

FORMER SOVIET UNION: EACH COUNTRY HAS ITS OWN PROBLEMS

It has been a year and a half since the financial crisis of 2008–2009 occurred. Russia and its neighbouring countries, the Ukraine, Belarus and Kazakhstan, experienced different types of market recovery. Recovery in Russia was quite rapid and steady (pre-crisis figures were surpassed in 2011), whereas the market dynamics of the neighbouring countries were not as definitive.

Ukraine: accidents as a market driving force

by Igor Strelets, Valeria Pisarenko

Ukrainian producers have increased production volumes in 2011, however pre-crisis figures have not been achieved. It should be noted that the consumption of plastic pipes in the Ukraine per capita is 2–3 times lower than in Russia, Belarus and Kazakhstan.

A large volume of plastic pipes were supplied for the Euro-2012 facilities and some of the major projects in the private investment sector. In general, activity levels in the construction market were insignificant. The use of plastic products is unjustifiably very low, especially considering the fact that the condition of utility networks has worsened within the last year and serious accidents have become very common.

Production

Production levels for plastic pipes during 2011 reached almost 50,000 tonnes. The most significant market sector is polyethylene pipes where production in 2011 was 36,000 tonnes – which is 41% more than in 2010 when the dynamic was negative (–1%). The significant growth in 2011 was due not to the stability of the construction market but the necessity of completing the major facilities within the timescale as well as some industrial corporation projects.

Production of PVC pipes increased by 31% to 13,000 tonnes in 2011, compared to the previous year. This is due to stable demand for small diameter PVC pipes for water

and wastewater pipelines used in private construction, as well as the achievement of project capacity by some Ukrainian producers.

The polypropylene pipes production sector also showed progress. The annual increase was 108% and production output was higher than before the crisis. It has to be said however that PP pipe production in Ukraine has always been low (the highest recorded output was registered at 1,000 tonnes).

Import

The Ukraine imported around 7,000 tonnes of plastic pipes in 2011 – of which 3,600 tonnes were polyethylene pipes. A significant proportion of PE pipes were imported for one major project – the deep water sewer outfall in Odessa. Here 2,000 mm PE pipes were used which had been produced outside the Ukraine.

Consumption

Consumption levels of plastic pipes are still lower than before the crisis, despite the fact that usage increased by 50% in 2011. These market figures were reached mainly due to emergency preparations for a football championship. Government renovation plans for the old utility networks remain uncertain from the perspective of producers, construction companies and consumers.

PE pipes are still in demand. Around 70% of them are used by the water supply and wastewater sector and the re-

maining 30% for gas pipelines. Increased demand for larger diameter pipes (from 800 mm to 1200 mm) was reported in 2011.

A significant reduction in gas supply projects in the Ukraine impacted demand for PE pipes for the gas pipelining sector.

Use of PVC pipes increased by 33% in 2011 and the total amount used for utility networks was 15,000 tonnes. The ease of installation and other useful characteristics of PVC pipes ensure steady demand, especially for low-rise suburban cottage developments.

In 2011, consumption of PP pipes increased by a hefty 65% to 1,940 tonnes. PP pipes are used in the wastewater and drainage sectors and compete against PE and PVC pipes. Competition is tough however PP pipes have a niche in the construction sector where the trend is for domestic rather than imported products.

Producers

Similar to previous years, around 70% of pipes are produced by five major companies: Eurotrubplast (Rubezhansky and Kalush pipe plants), Planeta Plastic, Vodpolimer, Elplast and Polyvtor. The market leader is Eurotrubplast which produced around 15,000 tonnes of PE pipes for different purposes. This is an increase of 62% on 2010 volumes.

The second position is held by Planeta Plastic (for the first time) with a market share of 9.6%. The company grew at 203%; this sharp increase was due to Mironosvkiy Khleboproduct OJSC, the new company owner. Planeta Plastic is its main contractor supplying pipes for the planned utility networks modernisation program.

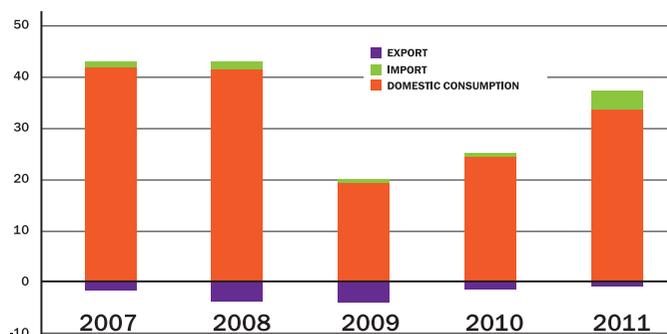
A weak construction sector prevents most producers from operating at full capacity and market share ranges from 0.3% to 3.2%. Some pipe producers have decreased volumes compared to 2010: Rozma (-46%), Ukrpolymerkonstrukciya (-41.5%), Polyvtor (-5.2%), and Sizakor (-4.7%).

PVC production results for last year from Ukrainian producers were quite impressive. Demand from the private sector, which does not depend on Government finance, has helped.

There were some changes in major domestic PVC producers. The Kalush pipe plant reached its design capacity and the company has increased production volume by 185%, taking fifth place in the operator ratings.

Some companies have scaled down production levels. MegaPlast announced a temporary shut-down of their PVC production operation in the middle of last year. The final year figure was -53.5%.

There have been changes in production rates as well. Instaplast-HV, the market leader for PVC production, increased volume by 5.7% in 2011. Metalplast (Kharkov), ValProm (Vinnitsa Region), EVCI Plastic (Kharkov) increased volumes by over 30%.



Pic. 1. PE pipes market in Ukraine

Brovary-Plastmass LLC and Elplast-Lvov LLC are the only PP pipe production companies in the Ukraine. The 2011 market leader was Brovary-Plastmass LLC with a significant production increase.

Expectations

2011 results were quite positive, showing increases in production and demand, however are no illusions about 2012 which is likely to be more difficult for the Ukrainian market. Considering the state of the economy it is doubtful that the Government budget can finance all the proposed projects for the modernisation and reconstruction of water, wastewater and gas pipeline networks.

According to the National Statistics Office, the country's GDP in the first quarter of 2012 was 1.8% compared to 4.7% of the last quarter 2011. This trend will, unfortunately, stay stagnant. According to IMF's forecast, GDP will fall from 4.8% to 3.7% in 2012.

The Verhovnaya Rada (Parliament of Ukraine) elections will be held in the autumn. A large proportion of the Government budget will be spent on the implementation of various social initiatives and programs which, unfortunately, are not related to infrastructure projects. There are no significant foreign investments expected in 2012.

The obvious conclusion is that development within the plastic pipe sector will slow down. According to some experts, production volumes could decrease by 25–30% compared to 2011. Euro-2012 is over and there are only few major projects in the country. It might sound pessimistic, but it is quite possible that plastic pipes will be in demand because of serious accidents, considering the increasing number of occurrences. It is also impossible to ignore the need for a full-scale renovation of the water mains in Yevpatoriya and Khmel'nitskoe or the wastewater network in Yuzhny. As a result of accidents in 2012 the largest cities were out of water for a long time. Ukrainian utility networks are aging and it is not always possible to do a local repair. The need for new pipelines remains great.

Belarus: aspects of national demand

By Vladimir Kovalenko

Belarus is like a Petri dish – compact and controlled, where most of the processes, particularly in the economy, remind an experiment with predictable development and expected results...

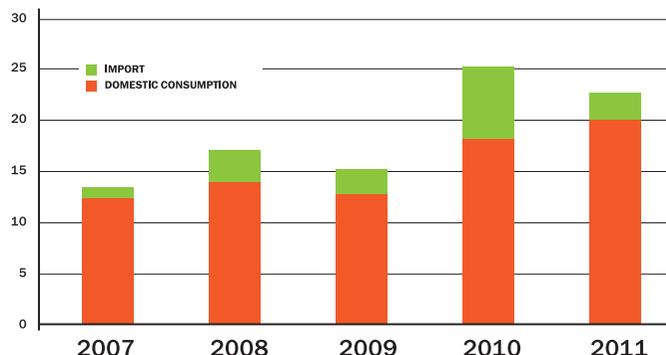
Belarus went through a double dip recession during the last three years. The first recession in 2008–2009 was linked to the global economic crisis, however, the second recession of 2010–2011 was predictable as a scientific experiment. What happened to the pipeline market in these difficult years?

As part of the construction materials sector, the pipeline market followed the general trend. The market slumped for 6–7 months as a direct result of the financial crisis in 2008–2009 which led to a 20% national currency devaluation. The consumption of plastic pipes reduced during this period. Since then, the market has not been restored despite Government measures to boost the development of the construction sector in the second half of 2009 and the subsequent ‘cheap mortgage’ policy which was designed to encourage individual home construction.

However these measures, combined with an excess of cheap finance, did bring results for the construction sector in 2010. Government measures on housing, the construction of new districts all over the country, and programs for low-rise building construction have all helped the construction sector boom. 2010 saw a record level of pipeline materials consumption – 40% more than in 2008 which was also buoyant.

This economic ‘locomotive’ stayed on track until July 2011 despite the fact that it was obvious that the sector was facing another crisis in April. The national currency had two rates: the official rate and the real one, with the three times the difference between them. Most contractors refused to work without advance payment from their customers, most of whom were Government bodies. As the financial crisis was unfolding, the majority of Government housing and infrastructure projects were frozen. Some of the projects were simply left abandoned without funding and this led to the deterioration of the contractor companies involved. Pipeline material sales volumes dropped by 20%, to 2009 levels and the country was in depression in the second half of 2011.

The beginning of 2012 was difficult but positive at the same time. Government program were not resumed but partial funding was restored and there were a number of Government and private projects related to industry, logistics and the agricultural sector. Business trends are changing and there is a need for market participants to adapt. Consumption levels did not achieve target figures in 2010–2011, but remained higher than in 2008–



Pic 2. PE pipes market in Belarus

2009. Now the market is different: Government funding is reduced but private investment projects are on the rise. We live with hope for positive change and a better future.

Kazakhstan: excess capacity exerts pressure on market

By Marat Baimukanov, Alexander Sazonov

The plastic pipes market in Kazakhstan continues to grow. 69,000 tonnes of PE pipes were sold in 2011, 70% of which were used by the water supply sector. Share of the gas pipes market is 23%. The consumption of pipes in wastewater, communication and other sectors is increasing.

The main feature of the Kazakhstan PE pipes market is a vigorous increase in production capacity (see More, more, more...). This is a natural business reaction to high demand resulting from Government programs for the development of water systems. The Ak Bulak (Pure Spring Well) project approved in 2010 is designed to provide good quality drinking water to 80% of the rural population, including a water supply to each house, and is expected to take 10 years. About 90% of group water supply systems have passed their operational time limits (they were built of metal in Soviet times). The renovation program involves hundreds of kilometres of larger diameter pipes and has a budget of 1,273,859 million tenge (over 265 billion rubles), including the Republic budget of 1,164,142 million tenge and regional budgets of 109,717 million tenge.

The 2011–2020 modernisation of the Kazakhstan housing and utility infrastructure includes the renovation of 27,000 kilometres of water pipelines and 18,000 kilometres of water distribution pipelines in the cities. Thousands more kilometres of pipes will be needed for the construction and renovation of distribution water pipelines in rural districts.

The 2012 budget for these programs is 94 billion tenge (around 19.6 billion rubles), and will help to renovate around 4,500 kilometres of pipelines. High demand for pipes and guaranteed funding attracts a large number of new partici-

pants into the market. Each month the opening of another new (larger size) PE pipe plant is announced, despite the fact that existing plants exceed market needs. Each region has at least one plant and new ones continue to open.

On one hand, competition between the manufacturers is good for consumers. It is a natural market regulator and ensures only those offering better prices, best quality and most favourable terms survive. On the other hand, excessive expanding capacities will inevitably lead to underemployment of equipment (according to some data, most of the plants don't go over 20% of the capacity and 10% for bigger diameters) and a reduction in returns, which eventually results in bankruptcy.

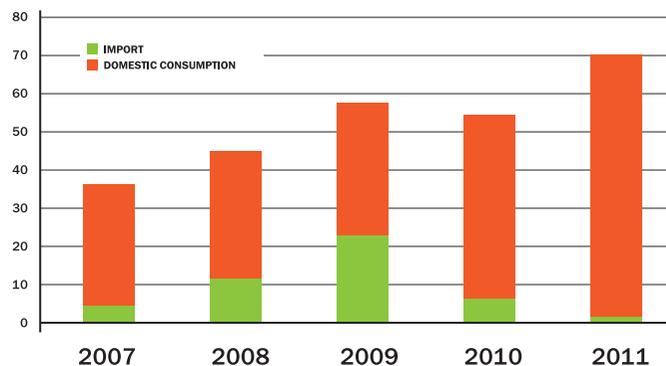
Moreover, most of the plants are built using loans granted by Damu Fund (Damu Entrepreneurship Development Fund JSC). This is Government money so, essentially, the Government is funding excessive capacity and intentionally undermining competitiveness and loan repayment capability. It is difficult to understand why this is the case. Even if we assume that the Government creates future non-payers in order to make them fail so that the plants can be taken over as Government property (which is quite possible), then along with the production capacity it will also inherit the problems of a plant with no orders.

The other reason of excess capabilities is a lack of analysis of loan applications.

The heavy presence of pipe plants has created a worrying trend. Faced with such tough competition, PE pipe producers ask for support from the local Akim (head of local administration). They usually receive support because every Governor wants to support their tax payers. Those who win regional construction tenders are bound to purchase pipes from local producers regardless of the quality and, sometimes, the price.

Nuraly Saduakasov, Governor of Kostanai Region said: "We want to increase the presence of Kazakhstan companies in the economy of our region as well as Kostanai companies." A similar pattern is occurring in Aktobe, Karaganda and other regions. In the Northern Kazakhstan region, where most of the Republic projects take place (construction of the Sergeevskiy and Bulaevskiy water pipelines), regional governments insist on involving Petropavlovsk Plant of Building Materials (PZSM), their 'own' producer, as a condition of land allocation.

Customers lose the right to choose their own supplier under the current transition to non-market mechanism of supply regulation (administrative pressure is being used as a substitute to competition). The market ceases to function properly. The plant under protection of the local government gets its protection from the competition, but is still 'locked' into the regional market as other regions have their own plants. Penetration to neighbouring markets is only possible with unique products or innovative technology (multi-layer pipes, profiled wall pipes etc.) or by dumping prices (which is related to the quality of raw material).



Pic. 3. PE pipes market in Kazakhstan

Kazakh producers quite often try to enter the Russian market (going beyond their region) having been precluded from the opportunity to supply within their internal market. According to current Custom Union agreements, PE pipe grades imported into Kazakhstan from abroad are free from 10% customs duty until 2014. This fact, along with cheap labour, could potentially turn Kazakh PE pipe producers into successful exporters to Russia and other CIS countries – but only for good quality carbon-filled PE 100 and PE 80 pipes, not natural types of PE. According to Mr. Yarulin, General Director of Tatneftchiminvest-Holding: "Kazakh producers of PE pipes gained competitive advantage over Russian because of 0% export duty".

If the conditions of the Treaty stay the same after 2014, then it is possible that the Russian PE pipe market will be flooded with products that are difficult to compete against.

More, more, more...

There were a number of new pipe plants opened in Kazakhstan in 2011–2012 and the capacity of existing plants also increased.

A PE pipes plant opened in Rudniy, Kostanai Region with an estimated capacity of 3,200 tonnes per year. According to the **METAL INVEST Trade and Industrial Company LLC** they will produce pipes with diameters from 110 mm to 450 mm, plus fittings.

PlastStandart LLC, of the same region, has been producing PE pipes since 2005 and will start a new extrusion line for the production of pipes with diameters up to 1200 mm. The annual capacity of the company has reached 12,000 tonnes. Abil Kozhapov, General Director of PlastStandart LLC said: "We have received a loan for the second line from Damu Fund at 11.76%. The price of the third loan of 107 million tenge (approximately 22.3 mln rubles) will be 7%, due to Business Road Map Programme funding."

Potencial Technogroup LLC in Almaty started production of pipes with diameters up to 160 mm.

Kokshetekhstroi LLC has started production of PE pipes with the capacity of 3,000 tonnes per year with only one line

AD NOTAM

DAMU ENTREPRENEURSHIP DEVELOPMENT FUND

The Damu Entrepreneurship Development Fund JSC – is a Government of Kazakhstan fund with the main purpose of encouraging the creation, economic growth and improved efficiency of small businesses in the Republic of Kazakhstan.

The Damu Fund is a national institute for development which was established in 2006. 100% of its shares belong to the Samruk-Kazyna JSC National Wealth Fund. The mission of the Damu Fund (an integrator and operator of finance and consulting services) is to support the quality development of small and medium businesses and microfinance organisations in Kazakhstan.

The Damu assets fund is 200 billion tenge. Currently the Damu Fund is implementing a number of programs delivering financial support for entrepreneurs and acting as a finance guarantor of loans and funding repayments within the framework of the Business Road Map 2020 Program.

In 2010–2012, the Damu Fund invested over 1 billion tenge (over 200 million rubles) in the plastic pipes industry.

in operation. Mr Peter Palashenko, Head of the plant said: “We hope to get a loan of 120 million tenge (approximately 25 mln rubles) via Damu Fund to install a second line for the production of 800 mm diameter pipes.”

Kazakhstan Pipe Plant in the Baizak area of Zhambyl Region began production in 2010 and in 2011 installed an additional extrusion line. Total investment value was around 3.5 million euro.

Petropavlovsk Plant of Construction Material LLC (PZSM) bought equipment for the production 400 mm PE pipes with a loan from Alliance Bank and the Damu Fund in 2007. There were extra two lines for the production of 630 mm diameter pipes in operation in 2009.

The company started production of PE high pressure pipes with diameters up to 1000 mm in 2011.

Tynys JSC, producer of PE pipes since 2005, bought the extrusion line for the production of PE pipes up to 1000 mm in diameter in 2011. The total loan was over 264 million tenge. This project was initially financed by the Damu Fund and due to the fact that the company operates in a priority

industry, the bank APR rate was reduced to 8%, 7% of which will be sponsored by the Government. This means that Tynys JSC’s repayment rate will be 1%.

Plast Invest LLC (Almaty) commenced production on their sixth line in November 2011 for pipe diameters up to 1200 mm.

PE pipe production started at **DaniER Trade and Construction Firm LLC** (Aksu, Pavlodar Region). PE pipes with diameters up to 500 mm are produced with Chinese machines using Korean raw materials. The project cost was 100 million tenge (approximately 20.8 million rubles). The main market is the Pavlodar Region.

Elekta Plus LLC (in Aktau) produces PE pipes up to 400 mm in diameter using two lines. Plant capability is now up to 7,000 tonnes of raw material per year.

Ust-Kamenogorsk PE pipe plant LLC was founded in 2008 and has a capacity of 1,000 tonnes per year. The plant was in the ‘industrialisation map’ in 2010 and started co-operation with the Damu Fund via CentreCredit Bank. The program funded 50% of APR for five years and enabled the company to develop production of PE pipes up to 500 mm in diameter.

Aktyubstroychimmontazh LLC in Aktobe have begun production at the **Aktubinskiy Plant of Polyethylene Pipes** with the capacity of 20,000 tonnes per year. The plant produces PE pipes from 20 mm to 630 mm in diameter. Total investment value is 900 million tenge (around 187.5 million rubles).

In 2011, **Kuat LLC in Kyzylorda** began production of HDPE pipes with diameters from 400 to 630 mm. The project was funded internal investment of 60 million tenge. Major consumers are the KazAtomProm National Atomic Company and a number of oil companies.

Aktau Polymer (Mangistau Region) produces PE pipes with diameters from 630 mm to 800 mm.

Yugplast is a new plant in Shymkent, the regional centre of Southern Kazakhstan, with a production capacity 6,000 tonnes of plastic pipes per year.

Alim LLC (in Uralsk, Western Kazakhstan region) began PE pipe production in 2011. Pipe diameters of up to 1200 mm are produced and the plant has a capacity of 11,000 tonnes per year.

Uralsk Trade and Industrial Company, in Uralsk produces pipes with diameters up to 630 mm.

TIATR Transnational Company LLC (Karaganda) is operating the KraussMaffei extrusion line for the production of HDPE pipes up to 800 mm in diameter.

Spira-Berga Almaty Plant LLC was one of the first companies in Kazakhstan to produce high quality PE pipes. Total capacity of six high-tech lines is 18,000 tonnes per year. In May–June 2012 the company began operation of OLMAS (Italy), a technology line for two-layer corrugated PE pipes with diameters of 50 mm, 110 mm and 160 mm. These are used for domestic sewer systems, communication cables, irrigation and drainage including geotextile filtering element.