



## **CHINESE MARKET: GROWTH POTENTIAL**

China is currently one of the most attractive markets for Russia: the export and import volumes between the PRC and Russia went up by a third last year. What are some of the ways for newcomers to find their footing, and for established players – to strengthen their positions?

“All of the relevant financial indicators clearly show China to be Russia’s main economic partner in the Far East,” Yulia Kosareva, Director of the Department for Private Investment Attraction at the Ministry for the Development of the Russian Far East, said in her speech at the Eastern Economic Forum.

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ENTERING THE CHINESE MARKET IS HARD, WORKING THERE IS EVEN HARDER.

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The Russia–China business dialogue, one of the forum’s key events, gathered prominent representatives of domestic industries. They see the Chinese economy as a very promising consumer market, while the Chinese business community holds big potential for cooperation. This is well justified: there was USD 7.7 bn worth of trading between the Far Eastern regions and China last year. Given the complicated business relations between Russia and Europe, the Chinese market looks very attractive for Russia even despite being relatively closed and heavily regulated. The chemical industry is perhaps best positioned to benefit.



*Participants of the Russia–China business dialogue. Source: Roscongress photo bank.*

“In the last decade, the Chinese chemical market grew over 3.5 times and amounted to USD 1.5 tn, almost 40% of the global market,” said Mikhail Karisalov, Chairman of the Management Board and CEO of SIBUR. According to him, the oil and gas / petrochemical industry accounts for over 13% of the country’s GDP. Such growth was possible thanks in large part to a significant increase in pyrolysis capacity that provides the industry with monomers – a basic chemical product. The ethylene capacities increased by 7.8 mt in 2013–2018, and this growth will almost double in the next five years. The CEO of SIBUR said that China was one of the major consumers of speciality chemicals, accounting for almost 25% of the global demand.

SIBUR exports a wide range of products to this market, including polymers, synthetic rubbers, and organic synthesis products. In the last four years, the Company’s exports grew by ca. 40%, which only scratches the surface of the Chinese market’s full potential.





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“Today, China accounts for approximately 30% of our total polypropylene and polyethylene exports,” said Dmitry Konov, Chairman of the Management Board of SIBUR Holding, when talking to the Xinhua and TASS news agencies. “The Chinese market will come into play even more with the launch of ZapSibNeftekhim, since the new facility's polypropylene and polyethylene products will be largely geared towards China. Two polyethylene grades will be tailor-made to meet the requirements of Chinese manufacturers.”

What drives the high demand for petrochemical products in China? There are two main factors. First, the Chinese government has set a course for fast development of mid-sized cities, creating urban agglomerations based on metropolises. Stemming from that, the second factor is mass migration from rural to metropolitan areas in light of the government policy. Both factors stimulate the domestic demand for modern goods and products, most of which are mass produced from petrochemical raw materials.





*The domestic demand for products manufactured from petrochemical feedstock is partly driven by massive rural to urban migration.*

SIBUR is preparing to launch ZabSibNeftekhim, a new production facility in Tobolsk that is being built to, among other things, capitalise on the high potential of the Chinese market. The Company also has near-term plans to build the Amur Gas Chemical Complex (GCC) close to the Chinese border, with the capacity of 1.5 mt of polyethylene per year.

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CHINA IS ONE OF THE BIGGEST CONSUMERS OF SPECIALITY CHEMICALS, ACCOUNTING FOR ALMOST 25% OF THE GLOBAL DEMAND.

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“The GCC project is closely linked to the development strategy of Gazprom, which has committed to launch gas exports to China by 2020,” says Dmitry Konov. “This year we have signed an agreement to supply ethane to the Amur GCC. Given China’s high demand for our products, this project will most likely yield great results.”

The Chinese market is huge and promising, but there is a caveat – its state regulation necessitates a special approach. The consensus among exporters seems to be that entering the Chinese market is hard, and working there is even harder. Partnering up with a local Chinese company is one way to make this process smoother and more efficient.

SIBUR’s experience is in line with that of the global peers. In 2013, the Company signed off on a joint venture between Krasnoyarsk Synthetic Rubbers Plant (KSRP) and Chinese Sinopec. The Chinese side purchased 25% + 1 share of KSRP and went on to handle nitrile butadiene rubber sales in the local market. Two years later, Sinopec successfully completed the acquisition of a 10% stake in SIBUR as a strategic investor.





*In 2013, SIBUR and China's Sinopec entered into a JV using the capacities of Krasnoyarsk Synthetic Rubbers Plant.*

The partnership was a success: currently over 50% of KSRP's products is exported to China, 30% is sold in the Russian market, and the rest is purchased by other countries. The joint venture not only ensured smooth entry into the Chinese market, but also had a positive effect on SIBUR's operating performance. "A strong partner like Sinopec is a great help in bettering SIBUR's operations," says Dmitry Konov. "We established cooperation with Sinopec's rubbers R&D centre, whose experts currently provide a very high level of service in processing technical inquiries and requests of Chinese consumers. SIBUR and Sinopec also implement joint R&D projects."

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## THE SILK ROAD ECONOMIC BELT WILL OPTIMISE THE LOGISTICS BETWEEN CHINA, RUSSIA AND THE EUROPEAN COUNTRIES.

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"The Silk Road Economic Belt will optimise the logistics between China, Russia and the European countries," believes Sergey Komyshan, member of the Management Board and Executive Director of SIBUR. "The railway connection between China and the Kaluga Region of Russia is already making transportation more efficient. This route is of particular interest to us given SIBUR's investments in the construction of a logistics platform in Vorsino Industrial Park for distribution of polymer products, including those from ZapSibNeftekhim."

Removing logistic bottlenecks will allow Russian petrochemical companies to ramp up their exports to China. On top of that, the Silk Road Economic Belt involves large-scale construction that will ensure growth in the domestic market of high value-added petrochemical products, which is spearheaded by SIBUR.

Over the coming years, SIBUR plans to continue fostering partnerships with Chinese companies, one of the focus areas being the development of chemical production technologies and their marketing in the Chinese market, which holds a lot of promise.



*Photos from the Eastern Economic Forum. Source: Roscongress photo bank*