



## **PETROCHEMICAL MARKET: 2020 SNAPSHOT**

SIBUR's CEO Mikhail Karisalov talks to Kommersant about the impact of the pandemic and the OPEC+ deal on the markets and the Company's business.

### **How are the Company's core business segments doing this year? What has been the pandemic's effect?**

Our basic polymer sales have grown quite a lot year-to-date. In Q1 2020, our polypropylene and polyethylene sales increased by 87.3% and by more than 100%, respectively, mostly due to the launch of ZapSibNeftekhim. As a result, the segment's revenue grew almost by a third, despite the decreasing prices.

We have also seen growing demand from the medical and food industries and, hopefully, it will remain at this new level for some time going forward. We built up polypropylene supplies for the production of protective medical goods and developed new polyethylene grades for medical packaging. However, we keep the prices for this industry as low as possible.



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Sales of plastics and products of organic synthesis gained 5.6% on the back of the product range expansion, Our hydrocarbon business had a much more challenging time, however, with the demand plummeting and prices decidedly going down. But in May we saw growing demand for liquefied petroleum gases (LPG) against the backdrop of officials easing lockdown restrictions and the beginning of the season in the autogas segment.

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#### **Does the OPEC+ deal to cut oil production make any impact on supplies of associated petroleum gas (APG) to SIBUR?**

The reduced oil production in Russia may have a temporary impact on APG supplies by oil companies. However, in the current environment a major challenge is perceived to be at the other side of the chain, i.e. it comes from fluctuations in demand and prices for various petrochemicals, LPG, or naphtha. In addition I should say that APG is not the only source of feedstock for the Company.

#### **Has the Company reduced headcount due to the pandemic?**

We have taken certain crisis response measures to be able, among other things, to preserve jobs today and create job opportunities going forward. We are redistributing our personnel, which leads to reductions in some areas and recruitment in others.

#### **How did China's lockdown affect the Company?**

The Company was definitely affected, but over the last month and a half we have been witnessing stable demand in Asia. As China is actively getting back on track, we have an opportunity to redirect most of our chemical exports to the country. However, the extent to which industrial production in China can recover is quite a different matter. As to our future projects with Sinopec, they are still at an

early phase and have, therefore, not been affected by the present-day situation. We will analyse the strategic prospects keeping a close eye at the current developments and long-term trends. Our plans to establish a JV at the Amur Gas Chemical Complex also remain in force.

**Your investment decision on the Amur GCC is tied to the introduction of a negative excise tax on LPG. The Ministry of Finance is talking about RUB 4,500 per tonne in subsidies. What is your take on this option?**

As far as I know, the text of the federal law is still being discussed to take into account the arguments of the Ministry of Energy and the business community. The excise tax that you mentioned cannot be regarded as sufficient for creating equal processing conditions for various petrochemical resources and stimulating new projects.

**How much did the coronavirus affect the petrochemical market?**

The petrochemical industry is cyclical like many other industries. Even before the coronavirus pandemic, the global petrochemical segment was already in the middle of the cyclical downturn. Today, a number of new projects (for example, in the USA) are being postponed or cancelled altogether as they promise lower returns, whereas utilisation of the existing capacities also remains reduced. I believe that in the long run these measures will help restore the balance between demand and supply.



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With the gradual loosening of the quarantine restrictions, I expect the current demand to go back to normal in the overwhelming majority of areas in the second half of the year. The hardest hit consumers of petrochemical products include companies from such industries as aviation, automotive sector and construction. Producers of consumer goods and electronics showed more resilience in

weathering the crisis. Finally, there are some industries (namely, healthcare and packaging) that have actually demonstrated growth. All in all, the majority of experts believe that the global demand for basic polymers for 12M 2020 will remain flat year-on-year.

*Source: Kommersant (<https://www.kommersant.ru/doc/4366780>)*