



Ministry of Development for Russian Far East
and Arctic



АГЕНТСТВО ДАЛЬНЕГО ВОСТОКА
ПО ПРИВЛЕЧЕНИЮ ИНВЕСТИЦИЙ
И ПОДДЕРЖКЕ ЭКСПОРТА

PETROCHEMISTRY IN THE FAR EAST

Review | Advantages | Clusters and projects

PETROCHEMISTRY IN THE FAR EAST

POSITIVE DYNAMICS, HIGH POTENTIAL

COMPETITIVE ADVANTAGES OF THE INDUSTRY:

Rich reserves

1,3 bn t

Oil and condensate

4,6 tn m³

Natural gas

Availability of feedstock

58 m t

ESPO pipeline

38 bn m³

Power of Siberia pipeline

Proximity to large markets

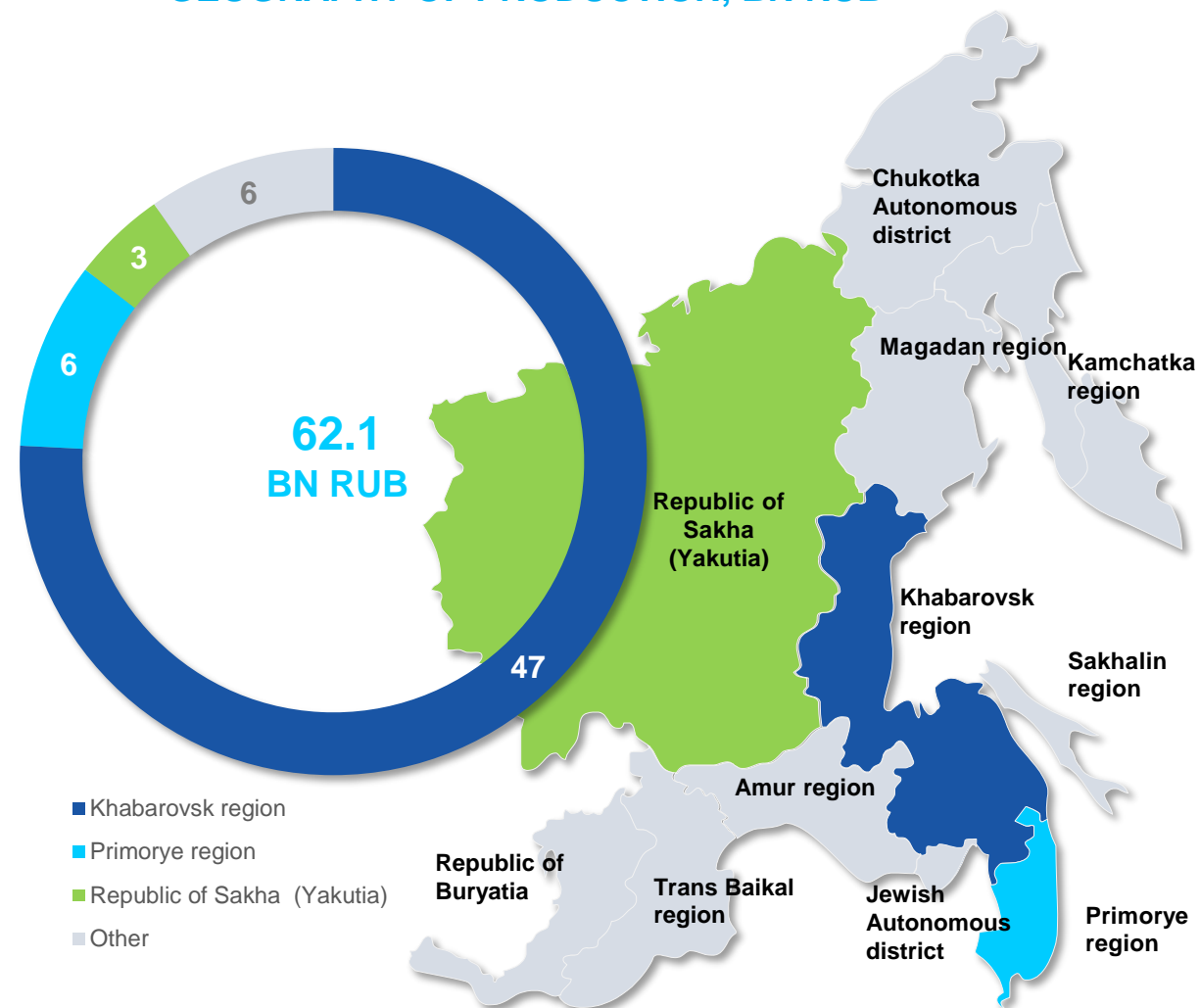
>\$200 bn/y

Volume of chemical import to China, Japan and Korea

National support

Construction of necessary infrastructure, tax preferences and state co-financing

GEOGRAPHY OF PRODUCTION, BN RUB



ONGOING PROJECTS IN THE FAR EAST

OVERALL INVESTMENT EXCEEDS 1.7 TN RUB

AMUR GAS PROCESSING PLANT- GAZPROM

- Svobodny priority development area
- Output: 42 bn m3/y
- CAPEX: 690 bn RUB

AMUR GAS CHEMICAL COMPLEX – SIBUR HOLDING

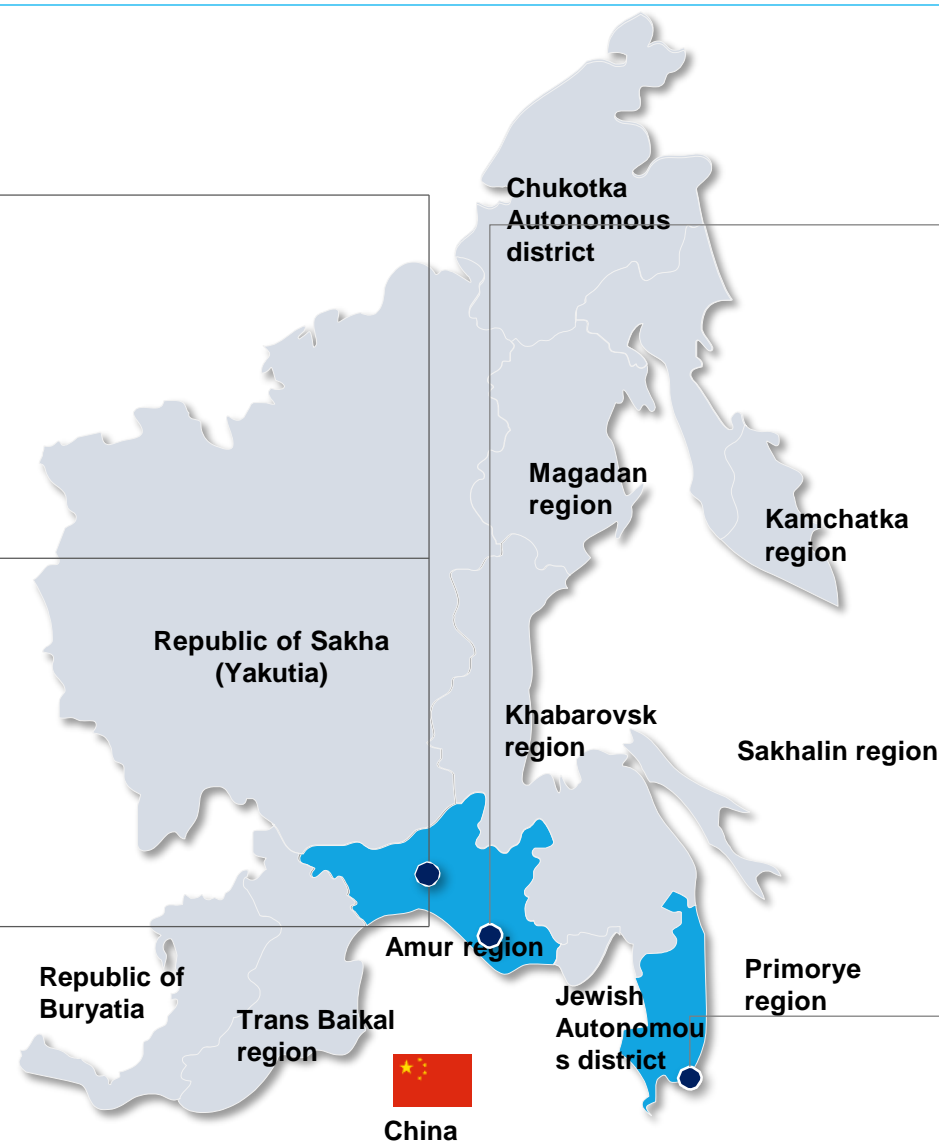
- Svobodny priority development area
- Output: polyethylene
- CAPEX: 500 bn RUB

METHANOL PLANT - ESN

- Svobodny priority development area
- Output: 1.0 m t of methanol per year
- CAPEX: 44 bn RUB

AMUR OIL REFINERY – AEC

- Priamurskaya priority development area
- Output: 6 m t of petroleum per year
- CAPEX: 123 bn RUB



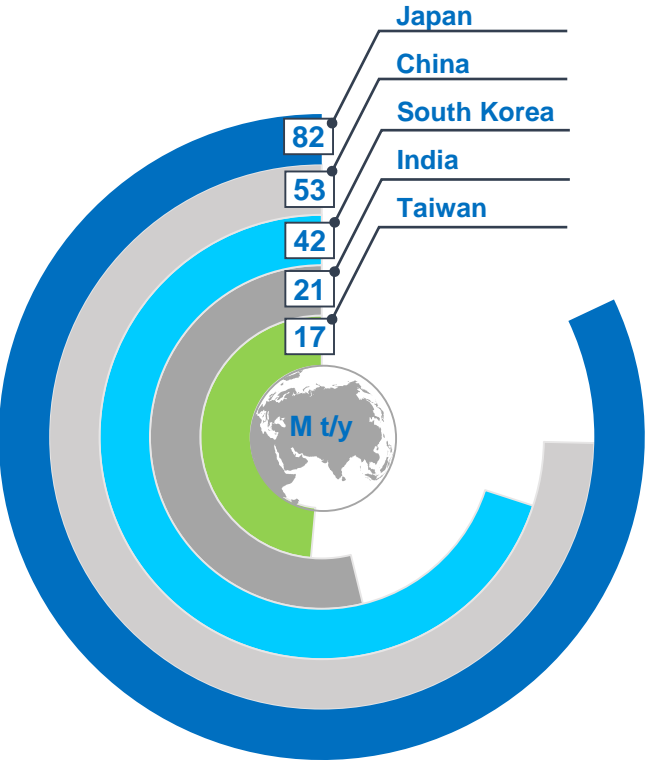
NZMU – NGKh

- Neftehimichesky priority development area
- Output: 5.2 m t of methanol and ammonia per year
- CAPEX: 402 bn RUB

MARKET TRENDS

LIQUIFIED NATURAL GAS

TOP 5 LNG IMPORTERS:



LNG PROJECTS IN THE FAR EAST:

Sakhalin 2 (1 and 2 lines)	OPERATING
Sakhalin island	PLANNED
11,4 m t	
+4 m t	
LLC LNG (1 line)	
R. of Sakha (Yakutia)	OPERATING
0,01 m t	PLANNED
+ 0,5 m t	
Far Eastern LNG	
Khabarovsk region	PLANNED
+1 m t	
YATEC	
Khabarovsk region	PLANNED
+1 m t	
Longshang, Sakhalin island	
+0,3-1,0 m t	PLANNED
Dalgazresurs, Khabarovsk region	
+0,4 m t	PLANNED
Sakhatransneftegaz	
R. of Sakha (Yakutia)	
+0,5 m t	PLANNED

- Today gas is the most promising power source among traditional ones, only gas has a chance to compete with renewable sources.
- Capacity increase of **LNG in the world by 2030** will amount to **4,5% per year**, and reach **580 m t**.
- **Russia** is the global leaders by gas reserves, the country accounts for **20% of global reserves**.
- By **2035 Russia** plans to produce **80-120 m t** of LNG per year.
- **By 2030, Far Eastern** capacities of LNG will reach **17,5 m t per year**.

















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PETROCHEMISTRY

- COVID-19: IMPACT ON OIL MARKET
- INFLUENCE OF OIL AND GAS PRICE DECREASE :
PROS AND CONS
- SUPPORT MEASURES

OVERALL IMPACT ON OIL-FIELD SERVICES AND O&G SECTOR| COVID-19 AND OIL PRICE WAR

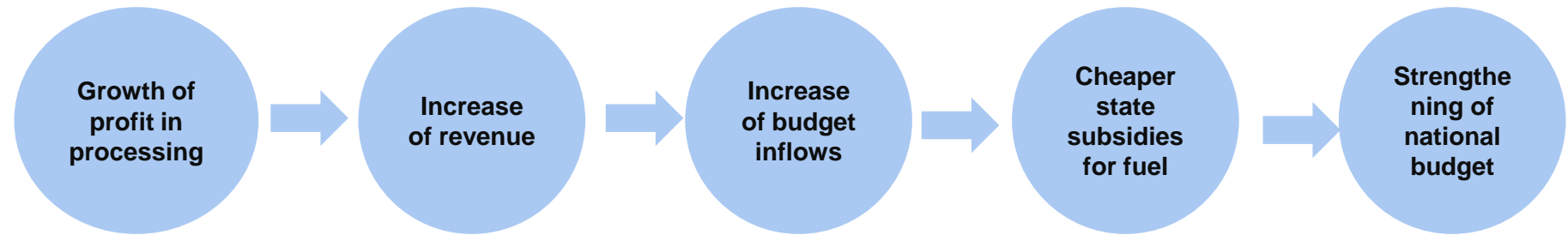
Virus consequences	Channels of influence on the sector	 High  Medium  Weak		
		Influence of GDP fall of the sector		
Reduction of consumption and decline of oil prices	Decrease of demand for oil and petroleum for more than 5% can lead to the reduction of production and processing, that in its turn will have negative impact on companies' revenue (fall of demand can reach over 1 million BPD).			
	Demand in the export market can decline by 5-20%.			
	Demand for pipeline transport is expected to fall alongside with the demand for oil and petroleum.			
	Decrease of oil and petroleum prices, provoked by the decline of demand, leads to the reduction of free cash flow, and with the price lower than ~\$40 per barrel it will lead to decline of investment and postponing/cancelling of new projects for extraction / modernisation of oil refineries, investment programmes of O&G companies will be cut.			
	Postponing/cancelling of new projects can result in reduction of production for the upcoming 3-4 years (if oil price stays lower than \$30-40 per barrel), as well as in failing oil refineries modernisation plans (oil basket will not improve, as was planned).			
Outages in supply chain	With the reduction of demand, suppliers are interested in fulfilling contract liabilities and staying in good relations with customers.			
	If there are any outages in supplies, transport costs can rise.			
Change of costs	Devaluation of rouble will increase competitiveness of O&G companies in the global market due to relatively lower operational costs in money value.			
	Growth of foreign equipment prices will lead to new initiatives promoting import substitution.			
Quarantine of employees	Quarantine will mostly influence office staff. It will not impact the output in mid-term perspective. However, insignificant cut back of staff can occur (less than 5%).			
	Pessimistic scenario with a long quarantine of blue collars may cause reduction of production / processing by additional ~ 10% at an annual rate.			

GDP of the sector can reduce by 5-10% due to output decrease, if barrel costs less than \$30 – by 10-20%; bankruptcy can occur only among service companies

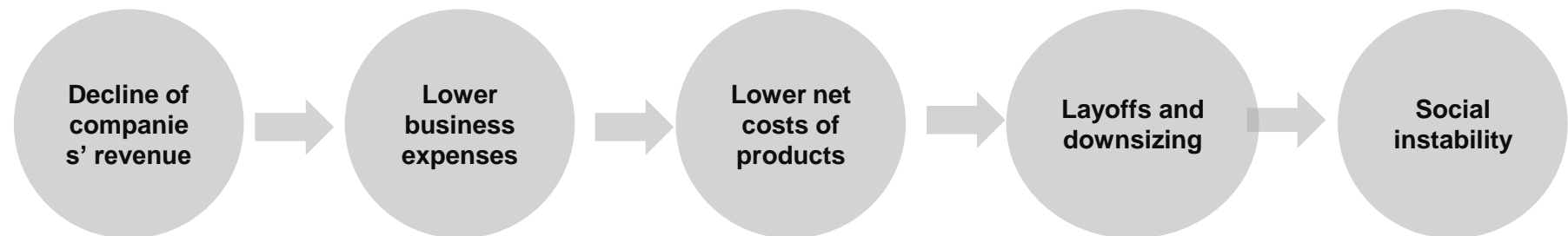
INFLUENCE OF OIL AND GAS PRICE DECREASE : PROS AND CONS



O&G
PROCESSING





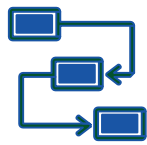


EXTRACTION



FISCAL MEASURES OF SUPPORT

Fiscal measures, offered by the government

Category	 Reduction of taxes	 Support measures for employees	 Stimulation of demand and financial help to people	 Increase of budget spending	 Support measure for companies
Examples of initiatives	<p>Revenue taxes</p> <p>Taxes on payments for labour</p> <p>VAT and sales taxes</p> <p>Delay of tax payments up to 3-9 months</p>	<p>Training centers</p> <p>Training programmes</p> <p>Financing of services aiding with employment</p> <p>Compensation of sick lists during self-isolation</p> <p>Compensation of salaries up to 80%</p>	<p>Direct payments</p> <p>Unemployment allowance, child care allowance</p> <p>Exemption from rent for social housing</p> <p>Postponing of mortgage and utility payments</p> <p>Preferential loans for those who lost jobs</p>	<p>Programmes for infrastructure maintenance.</p> <p>Expansion and acceleration of budget spending, for example on infrastructure construction programmes</p> <p>Other state spending (e.g. medicine, subsidies)</p>	<p>Direct aid to banks and facilities</p> <p>Delay/cancellation of rent for state property.</p> <p>Credit guarantee up to 80% from the loan interest rate-free loans.</p>

Source: BSBG, Financial Times, Forbes, Investopedia, Reuters, The Guardian, New York Times, The Local, CBC, CNBC, ING

OUTCOMES OF HOT LINE ON LEVEL OF KNOWLEDGE ABOUT SUPPORT MEASURES

Survey for FE investors

The Agency questioned >50 in the FE

- Have you heard about new support measures from the government? (e.g. interest rate-free loans for salaries, postponing of tax and credit payments)
- Have you used the support measures?
 - If YES – was it effective?
 - If NO – why?
- Are there enough support measures?
- Does your company need other measures?

Results

Have tried, measures are effective, there is regional support	2%
Have tried, measures are effective, no regional support	6%
Have heard, haven't applied	47%
Have heard, not relevant for me	45%
Have heard, don't need support	0%

"Tax holidays don't work, tax service allows to apply with declaration in May, but requires payments before 25 April"

— Industrial construction, Khabarovsk region

"What support measures? Our support measures were cancelled and redirected to other industries!"

— Agriculture, Primorye region

"Companies have lower taxes by simplified system, without any applications to tax service"

— Medicine, Kamchatka region

"Companies were included in system companies, but no data on support measures so far"

— Forestry, Khabarovsk region

PLANNED PROJECTS IN THE FAR EAST IN 2020: UNDER COVID-19 AND GLOBAL CIRCUMSTANCES

Possible risks:

- Price fluctuations of end products in export markets;
- Rouble devaluation caused by low oil prices makes large projects more expensive;
- Prolongation of construction terms for the time of restrictions in Russia, Europe, Asia-Pacific countries;
- Possible negative change of preferential programme in O&G industry;
- High rate of credit financing;
- Increase of tax burden is the key risk for O&G industry;
- Lack of labour force due to closed borders, mass layoffs in O&G industry;

Anticipated advantages:

- Low prices of feedstocks allowed to improve economic situation in gas processing, increase profit;
- Focus on domestic distribution due to changes in foreign market;
- With present prices, Russian companies will have more profit if process oil by themselves;
- Increase of self-sufficiency in Russian O&G industry. Possibilities for win-win cooperation in foreign market.

Support measures:

- Accelerate decision of reverse excise tax for LHG;
- Subsidies for large gas-to-chemicals projects;
- Introduce one-time subsidies with 50%-reimbursement of construction costs for the period when bank credit rates and financial loans have restrictions;
- Allocate capital grants for infrastructure projects (gas stations in Yakutia);
- Accelerate state permission procedures for ongoing projects in the upcoming 4 years, in order to compensate delays caused by coronavirus and complete development as scheduled
- Expand preferences for priority development areas, to compensate for long-term negative effects (7+7 years instead of 5+5 years);
- Approve so-called “grandfather clause”: non-worsening of tax, financial and tariff conditions for priority development areas;
- Temporarily cancel customs fees for components for high value-added products.



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PETROCHEMICAL CLUSTER:

- Cluster synergy as a driver for O&G chemistry growth

PRODUCTION CLUSTER ALLOWS TO OPTIMISE CAPITAL AND OPERATIONAL COSTS IN INCREASE COMPETITIVENESS

Driver

Characteristics

Unified cluster structure

- Cluster is a big group of participants. This allows to establish and profitably operate large infrastructural facilities: ports, pipelines, power stations, highways, railways, telecommunication lines, high voltage lines and many more.
- Group of residents enables to operate transport system more and effective – supply of feedstock, unload of end products, management of big amount of employees.

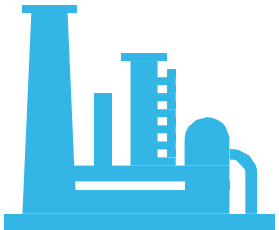
Cooperation of participants inside the cluster

- Participants are depend on each other but do not compete directly.
- Cooperation allows to establish large R&D centers and share experience.
- Waste of one production can be utilized by another.
- Temporarily exchange of labour force.

Marketing and sales

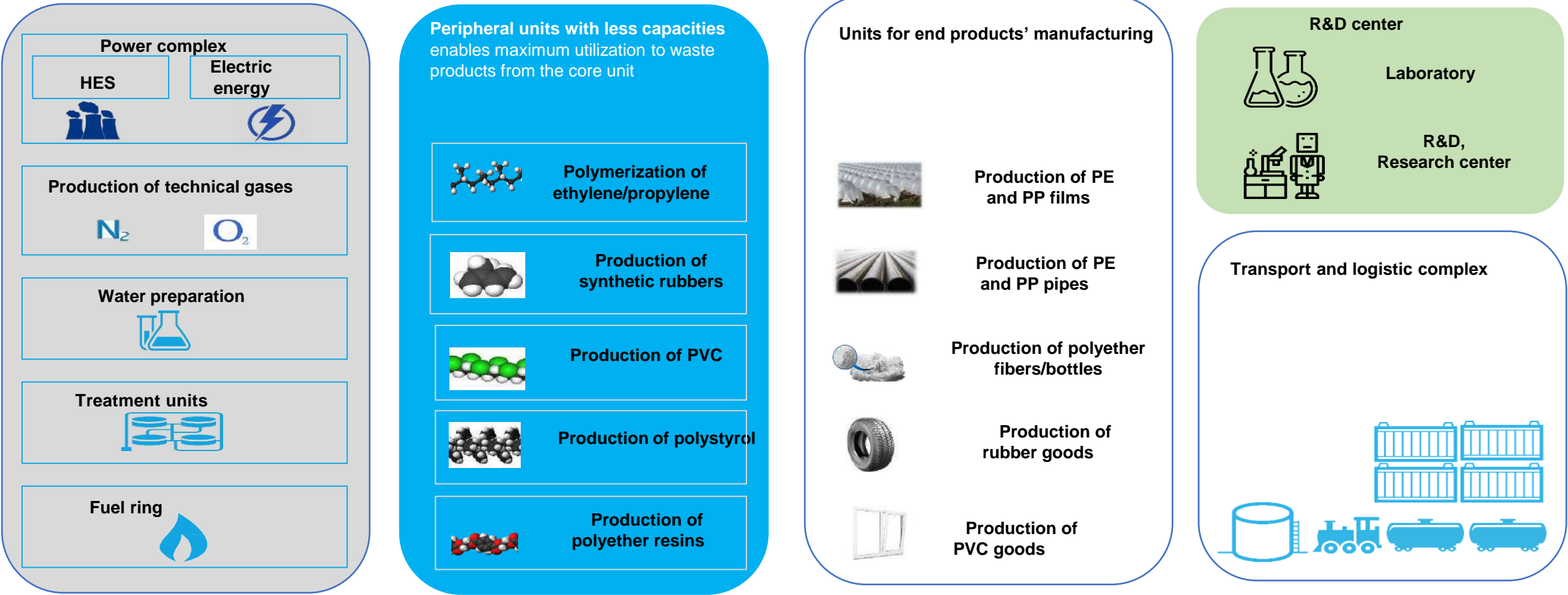
- With the time being, the market considers a cluster to be a united company where a wide assortment of products can be purchased (one-window concept).
- Promotion of one participant benefit for others. Thus, with cluster development marketing costs go down.

EXAMPLE OF A PETROCHEMICAL CLUSTER



Cluster core – establishment of base petrochemical production

Capacity reserves of power of core unit are used for linking of peripheral units with less capacities



HOW FAR EAST INVESTMENT AND EXPORT AGENCY HELPS INVESTORS

PROJECT SELECTION:



- ✓ Development priorities
- ✓ Regional resource base
- ✓ Investment potential

FINANCING:



- ✓ Cooperation with banks, Russian and foreign investors
- ✓ State subsidies

COOPERATION WITH FEDERAL EXECUTIVE AUTHORITY :



- ✓ Federal level
- ✓ Regional level
- ✓ Ministry of Far East Development and development institutes of Far East

PREFERENCES:



- ✓ Status of residents of specialized economic areas for projects
- ✓ Measures of national support
- ✓ Agreement of special conditions

EXPORT EXPANSION:



- ✓ Search of contractors
- ✓ Initiatives on export restrictions changing



Министерство Российской Федерации
по развитию Дальнего Востока и Арктики



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