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UNITED CHEMICAL COMPANY URALCHEM: THE TRUE CONTENT OF BUSINESS STRATEGY

**Study of the Corporate Strategy of United Chemical Company
URALCHEM, Open Joint Stock Company.
Assessment of Social and Environmental Effects of Activities.**

INDEPENDENT REPORT

Moscow, 2010

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INTRODUCTION

The scope of the present study is the strategy of United Chemical Company URALCHEM, Open Joint Stock Company, the effects of its implementation in Russia and the forecast of possible consequences of the Company's expansion in European Community countries as well as appearance of the Company's facilities in Dieppe (France).

At the end of year 2009 it was disclosed that a transshipment terminal for nitrogenous fertilizers is to be constructed in Dieppe (France) starting May 2010, to be finished in the summer of 2011. Moreover, it is possible that in the same town there will also be an off-grade chemical fertilizers processing plant with capacity 250-300 thousand tonnes per annum. It is assumed that dry carbamide in granules will be delivered to the plant and processed into liquid state. The complex will comprise two storehouses for 2.5 thousand tonnes each and four reservoirs for ready product storage. It is planned to set off two ships of 8 thousand tonnes capacity monthly, as well as to perform road transport and rail road deliveries. The proprietor of these facilities is to be United Chemical Company URALCHEM based in Russia that bought a land plot from Dieppe municipality in 2008 – provided that the erection of these facilities will exert no harmful effect on the environment.

When solving the problem whether or not it shall be allowed to erect facilities of this type, the authorities and ordinary citizens usually try to find the answers to the several key questions to learn how realistic the preferences promised by the investor are and how substantial the risk is which is always associated with this type of investment projects:

- Will the erection of this type of facilities (related to the chemical industry which is associated with some ecological risks) harm the environment in the town?

- To what extent is the company appearing in the town justifiable as an investor: is it able to provide the investments volume that will pay for the risks (including those ecological) arising for the municipality and how longtime are the projects being implemented; how reliable as a partner and how law-abiding as a market member it has proven to be while operating in other countries (and first of all in Russia where the largest part of the structures comprising the holding are located)?

- How valuable is the company for the municipality as an employer: is it going to create new working places, will those working places be suitable for local citizens and will the citizens agree to work on these places, and is it ready to observe the labour rights of its employees in the full scope?

- To what extent is the company's activity open for monitoring and inspection (first of all – for civil institutions: public organizations and media representatives)?

The official web-site of URALCHEM Company contains information of the Company operation principles that position the holding as a structure adhering to European business standards:

- “carefully monitors the ecological safety”;

- “values the confidence of its stockholders and investors”;

- “respects and values its employees”;
- “strictly observes the principles of business ethics and adheres to the principle of legality”.

Nevertheless, it is not necessary to point out that official statements are often inconsistent with reality. So, what are the real, not just announced approaches practiced by URALCHEM Company? What shall the citizens of Dieppe expect from the new investor? To get the answers, it would be appropriate to analyze the Company’s working practice in Russia.

1. URALCHEM AS AN INVESTOR

Estimation of Investment Risks in Case of the Proposed Project Implementation and Assessment of URALCHEM Company Investment Solvency

Preamble

In order to estimate whether a corporation is justifiable as an investor, it is necessary to answer the two main questions:

A. What goal is contemplated by the company when it proposes a certain investment project for implementation?

B. How is the company itself assessed as an investor?

What aspects characterize a company as an investor? First of all, these are:

- Working experience of the company and its management in the particular industry. It is evident that a company having a long history in the particular industry and managed by people tightly bound to the industry will be interested in serious and long-term investments and aimed at long-term projects implementation because this is its primary activity type. If, on the contrary, the company has a very short history and its management staff have changed several various fields of activity, then it may be rather interested in quick profit derivation than in long-term operation. In this case, there is a high probability that its working methods will be characterized by negligence of the law and the interests of territorial municipality where the project is implemented, as well as by disregard of its employees’ interests – as in this case quick profit derivation is much more important than the reputation gained by years of operation in the industry.

- Does the investor possess sufficient amount of finance for project implementation? It is good if it is financially well-off and funds the project by own means – in this case there is a guarantee that the project will be implemented. If, on the contrary, the project is financed with borrowed funds and the investor itself is not financially solvent, this either means that the project will not be implemented or it means that the existence of the project will serve the goal of quick profit derivation and consequently will pose significant risks (because in this case it is not necessary for the company to

take care of its reputation, while legality, environmental risks and credibility in the eyes of the authorities and local citizens have little significance).

- How did the investor approve itself before? If it has previously violated agreements with its partners, it will certainly do it again.

The analysis of the practical activities of URALCHEM Company gives the following answers to these questions.

1.1. URALCHEM Company and its management experience in the sphere of chemical fertilizers production

1.1.1 Major milestones of United Chemical Company URALCHEM OJSC history – working experience in the industry

United Chemical Company URALCHEM OJSC (UCC URALCHEM OJSC) has a very short history of operation in chemical industry. The company was registered on the 30th of October 2007. The Company shareholders are offshore structures controlled by entrepreneur Dmitry Mazepin.

The main part of the Company's productive assets was formed of the enterprises controlled by "Konstruktorskoye Buro" (Design Bureau) LLC which was established by the above mentioned Dmitry Mazepin some time earlier – in 2004.

On the 19th of November 2004, Fintrastcom JSC acting in the interests of Dmitry Mazepin acquired the state-owned stake of Kirovo-Chepetsk Chemical Works, OJSC (KCCW) weighing 38.85%. Earlier, a blocking share of 25.15 % of KCCW belonging to Agrochemical Corporation AZOT OJSC had turned under control of some companies close to Mazepin.

By year 2005 Mazepin had got control over Galogen plant, the blocking share of AZOT OJSC and more than 40 % shares of Perm Mineral Fertilizers (all the three enterprises are located in Perm region in Russia). These assets had belonged to Agrochemical Corporation AZOT OJSC. In the previous several years ACC AZOT had several times changed its owners – at the end of 1990-s the largest shares of the company belonged to Mezhrefiongaz and Interchemprom, while in 2003 they belonged to Neftegazbank; by this time the shares of the leading enterprises controlled by ACC AZOT had been sold to other companies.

After creation of URALCHEM holding, in May 2008 Dmitry Mazepin bought 71.2 % shares of Voskresensk Mineral Fertilizers OJSC (Moscow region) from Agroprom Group which, in its turn, had gained control over these shares only in spring of 2006 by buying them from Fosagro holding.

In year 2008 Mazepin also gained control over 10 % shares of TogliattiAZOT (Samara region).

One of the remarkable characteristics of URALCHEM's activity at these enterprises was the lack of main production funds investment together with finance transmission from the enterprises' accounts for other needs, such as owner dividends payments and non-core assets acquisition.

The lack of main funds investment of UCC URALCHEM production structures was noticed by Russian financial analysts. Last spring, while prolonging the credits of URALCHEM, Sberbank assessed its three chemical works in 22.7 bln rubles.

Mineral Fertilizers Plant KCCW (Kirovo-Chepetsk, Kirov region) was assessed in a little over 6.0 bln rubles, AZOT (Berezniki, Perm region) – in about 11.0 bln rubles, and Voskresensk Mineral Fertilizers (Moscow region) – in 5.7 bln rubles. URALCHEM itself was assessed in 60.0 bln rubles.

This estimation of URALCHEM assets in 60.0 bln rubles (or about \$ 2.0 billion) is considered inadequate, for instance, by Renaissance Capital company: it reflects the cost of worn-out depreciable assets. According to the opinion of financial analyst Marina Alexeenkova, consolidated assessment of URALCHEM's plants shall be \$ 2.0-3.0 bln.

Nevertheless, despite the financial shortage, the owner of URALCHEM paid himself 5.4 bln rubles as dividends for year 2008 upon the shares of Kirovo-Chepetsk Chemical Works included in the holding. This 1.8 times exceeds KCCW net profit (which amounted in 3 bln. rubles in 2008). This episode may lead to the conclusion that the holding owners place their own profit above the interests of production projects development (into which the main part of companies' profits is usually invested).

It shall be noted that, in the second half of 2008, investments of the structures close to Dmitry Mazepin were lavishly spent for non-core assets acquisition, according to the mass media information. At the very end of 2008 new night club **Pacha Moscow** was opened in Moscow as one of the well-known global chain Pacha International, which gave the new club both the name and the company style. In spring 2009 mass media published the information that the club's beneficiaries are structures close to Dmitry Mazepin. The expenses of the club establishment were assessed as close to 40 million dollars.

In summer 2008 the representatives of URALCHEM also bought 3 storey levels in one of the tower buildings in Moscow-City business quarters. This purchase was assessed by independent experts in 60 million dollars. All these events took place at the time that was financially difficult for the company.

Thus, we can see that, firstly, the enterprises comprising URALCHEM holding have been controlled by the holding for just a short period of time. Secondly, many of them have several times changed their owners. And thirdly, the Company's finances are not directed to production funds renewal and the Company's production facilities development, but, on the contrary, are funnelled from the enterprises' accounts and directed to non-core assets acquisition and Company owners dividend payments. Such an approach corresponds to the practice of some representatives of business

in Russia who regard their assets as an object of financial speculations rather than their company's production base. By convention, this approach assumes orientation at short-term outlook profit derivation and quick assets resale rather than at long-time ownership and support of long-term implementation projects.

1.1.2 Key biographical points of the Beneficiary of United Chemical Company URALCHEM OJSC, Dmitry Mazepin – working experience in the industry

The type of activity presuming financial operations with assets rather than production tasks solution has been predominant in the career of UCC URALCHEM owner Dmitry A. Mazepin.

He has graduated from Moscow State Institute of International Relations of MFA of USSR. His education was not related to professional qualification for chemical industry.

Mazepin occupied managerial positions in companies controlling petroleum industry. In 1997 he held the rank of the Vice President of Tyumen Oil Company, and in 1997—1998 he was the Executive Director of Nizhnevartovskneftegas OJSC.

After that he spent some time working in banking sphere. In 1998—1999 he occupied the position of Deputy Chairman of the Board in Flora-Moscow bank.

Then he worked in the sphere of federal property management – as the President of Russian Federal Property Fund (RFPF). In June 2001 he was appointed state-representing General Director of Kuzbassugol Coal Company OJSC that was at that time burdened with debts totally amounting to about 10 bln. rubles. According to the words from an interview with Vladimir Malin who was RFPF Director at that time, Mazepin's task was to prepare the enterprise for state share selling. It was already in December 2001 that Mazepin vacated and in June 2002 he was formally relieved of his duties in Kuzbassugol.

From January till June 2002 he was the First Deputy Chairman of Russian Federal Property Fund; he was elected member of Board of Directors of Rosneft Company and Transneft OJSC. At that time one of the key tasks of RFPF was selling the state shares controlled by the structure. These bargains caused serious censure from the community and inspection bodies. As a result, for instance, Vladimir Malin who administrated RFPF at the time of Dmitry Mazepin's work was later dismissed from his position and in December 2005 he was convicted by Zamoskvoretsky court in Moscow of bribery and excess of powers.

In 2003 he worked in the structures of Sibur holding that controlled shares of some chemical industry enterprises. In 2004 he established his own company – “Konstruktorskoye Buro” (Design Bureau).

Thus, analyzing the facts of Dmitry Mazepin's biography, one can make the conclusion that his work in any sphere lasted only a short time period. These time periods were evidently insufficient to

familiarize with the peculiarities of working in the particular industries and may be only optimal for quick control gaining or, on the contrary, assets selling.

These facts give another indication that both UCC URALCHEM and its management are aimed at assets manipulation and profitable resale rather than at long-term production administration and development. Structures of this type do not usually become reliable investors willing to support long-time projects because they prefer quick profit derivation and passing the risks to the next owner of their assets and to other parties.

1.2. Financial solvency of United Chemical Company URALCHEM as an investor

The previous years were characterized by significant financial difficulties for UCC URALCHEM and the structures close to Dmitry Mazepin which turned out burdened with debts. Thus, the holding and its owners are limited in own finance for investments and have to assume borrowed funds.

As stated by Russian financial analysts, at the end of 2008 and in 2009 prices for mineral fertilizers reduced by several times and are now much lower than before the crisis, which has led to UCC URALCHEM profits reduction. Thus, Voskresensk Mineral Fertilizers OJSC, controlling block of shares of which was purchased by structures close to Mazepin in May 2008, started losing profit since August 2008 already. In September of the same year prices for phosphorous fertilizers reduced by over three times. According to the information from Fosagro, the sole supplier of apatite concentrate to Voskresensk Mineral Fertilizers plant (VMF), the volume of supplies to VMF dropped drastically and Voskresensk plant started generating losses.

However, VMF had been acquired not for own but for borrowed finance – Sberbank of the RF allocated URALCHEM a credit in amount of 200 million dollars for this purpose in 2008. The VMF bargain amounted to \$ 358.6 million and the direction of investment of the rest of the credit amount is unknown. By autumn 2009 URALCHEM not only failed to settle with Sberbank of the RF, but also required additional finance. In the middle of November 2009 URALCHEM came to an agreement with Sberbank of the RF and gained prolongation of all the credits previously received (amounting to over 25 bln. rubles) and also received a new credit in amount of 3.089 bln. rubles. The motivation of Sberbank managers in this case cannot be rationally explained, of course, if one presumes that they followed the interests of their company rather than pursued their personal aims.

Moreover, URALCHEM also received some credits from enterprises that it controls. The credits from Kirovo-Chepetsk Chemical Works and AZOT OJSC totally amounted to about 10.0 bln. rubles: approximately 5.0 bln. rubles from each of the enterprises at rates 15.5 и 18.5% per year, correspondingly, till May 2011.

According to the financial balance statement for the 3rd quarter of 2009, the holding was burdened with debts amounting to over 56 bln. rubles.

The enterprises comprising the holding have serious financial difficulties, too. On the 23rd of December 2009 Volgo-Vyatsky bank of Sberbank of the RF gave Mineral Fertilizers Plant Kirovo-Chepetsk Chemical Works JSC (included in URALCHEM group) a credit of 1 bln. rubles, guaranteed by AZOT OJSC (URALCHEM group, too). The credit was given for 18 months for the goal of financing of the current activities of the enterprise.

This shows that UCC URALCHEM does not possess own finance for investment projects implementation, and the currently borrowed holding's funds only partially cover its existing debts. Thus, the investment projects being implemented are unlikely to be long-term and there is a high probability that they may be just a method for temporary finance withdrawal and further investment in some other projects, short-term as well.

1.3. Relations between United Chemical Company URALCHEM and its owners with their partners

Any structure can be well characterized by the history of its previous activities. Since the very beginning of his work in the industry, Dmitry Mazepin was involved in several conflicts with minority shareholders, totally ignoring their rights and legal stipulations concerning such shareholders. Many of these conflicts could require a separate examination.

For instance, according to the information from "Kommersant" edition, in May 2008 the holding bought a stake of 74.8 % share of Voskresensk Mineral Fertilizers OJSC (VMF) from three off-shore companies registered on the Cyprus. It ignored the legal regulation obliging to make a share redemption offer to other shareholders with the same price as for the main stake when it refused to buy the main stake of 24.5 % share belonging to Cyprian company Shades of Cyprus Ltd., by simply not accepting the offer documents from the minority shareholder saying that the company was late behind the deadline. Representatives of the minority shareholder were not allowed to enter VMF or URALCHEM, nor was allowed the notary for whom Shades of Cyprus Ltd had written off the VMF shares belonging to the minority shareholder. . At the same time, URALCHEM bought 0.77 % VMF from Fosagro, 3 % from Cyprian company Dornan Property Services Ltd. and about 1 % from some individual persons. The cost of 24 % VMF was assessed at that time as \$ 114 million. This circumstance has already been subject to judgment proceedings and the court has established that the minority shareholder acted rightfully and the notary made all the effort to submit the offer documents to URALCHEM.

Shades of Cyprus holds 24 % share of VMF and tried to sell it to URALCHEM in November 2008 in the context of obligatory offer to minority shareholders. But URALCHEM refused to buy the stake claiming that the off-shore company submitted the documents too late.

Thus, this incident gives an example of URALCHEM's actions against the interests of minority shareholders and partners, which gives the holding a negative characteristic as to investor.

1.4. Risks of France – preferences for the United Kingdom **Company's goals in the course of Dieppe project implementation**

It is widely known that by early 2000-s, having wrested out privatisation of state property by means of bargains that made mass media doubt their legality, and having exhausted their growth possibilities in Russia, some representatives of Russian business started seeking for expansion in Europe.

URALCHEM corporation has not become an exception. Since 2009 the company claims for buying two enterprises – “flagships” of Polish chemical industry (Zakłady AZOTowe Pulawy (ZAP) and Zakłady Chemiczne Police (ZChP). On the 15th of April 2009 affiliated company URALCHEM Trading was registered in Latvia. According to the information of Latvian paper Dienas Bizness, the company plans to build its terminal in the free port of Riga. URALCHEM possesses also URALCHEM FREIGHT LIMITED company registered in Limassol, Cyprus which was established in order to expedite and ship by sea the company products.

Acquisition of infrastructure assets in Europe may be logically explained with the task of products shipment to customers located in the European Community countries. The company sees the main markets for their products as the United Kingdom, Italy, Poland, Scandinavian and Baltic countries.

In its turn, acquisition of production assets is to a large degree explained by the necessity to process off-grade products returned by European consumers.

Owing to the above mentioned causes, the holding has been present at the market of chemical fertilizers for just a short time, which reduces its competitive edge. In such a case, one of the few competitive advantages for the holding could be innovation technologies. Indeed, this line of activities is declared in the official information documents as one of priorities of URALCHEM's work.

Nevertheless, as it is known from Russian mass media referring to the employees of URALCHEM's enterprises, manufacturing of new product types was performed, firstly, without detailed elaboration of technology aspects and, secondly, by means of outdated and poorly suiting equipment.

For instance, according to the words of some ex-employees of AZOT OJSC in Berezniki (Perm region, Russia) belonging to the holding, this plant made some experiments with new composite

sulfur-containing fertilizers using the equipment that had been installed about 20 years before by representatives of a Japanese company, and most of the qualified specialists who had serviced this equipment were not working in the company's structures any longer.

In summer 2009 the administration of Voskresensk Mineral Fertilizers OJSC announced to its customers that they were going to manufacture new product 9-25-2 with high content of active substance NPK. Nevertheless, due to impossibility of production of the claimed quality level product, the plant was stopped.

Such a production policy, of course, leads to the increase of the volumes of off-grade products. This is proven by the existing practice reported by Russian mass media saying that there are large volumes of recalled products accumulated on the territory of the enterprises. The consumers have claimed that URALCHEM plants "constantly supply off-grade and our chemists say ammonia is half-rare, with ample traces of non-balanced reactions". On the territory of Voskresensk Mineral Fertilizers OJSC plant, significant volumes of off-grade products in hardened condition have accumulated.

Considering that the key consumers of the company's products are located in Europe, reprocessing of the recalled off-grade products on the territory of the EC countries close to the market outlets causes less economic costs for URALCHEM.

A new direction of URALCHEM's expansion in Europe was the United Kingdom. By means of the above mentioned URALCHEM Trading company, URALCHEM corporation has been accepted a member of Agricultural Industries Confederation (AIC). Established in 2003, AIC is the leading British association of enterprises serving agricultural production. At the present time, the Confederation associates over 300 companies with total annual turnover of 6.5 bln. pound sterling.

The above data indicate that the representatives of URALCHEM will be, on the one hand, interested in establishment of production assets for off-grade products reprocessing in the close proximity to the outlet markets in the United Kingdom – this would be profitable in logistical terms. But on the other hand, they are not interested in the significant damage to their reputation that may be caused by public discontent in the United Kingdom associated with high ecological risks (see section "On Environmental Situation at Enterprises of URALCHEM Company").

An optimal decision to solve this problem would be erection of such enterprises in close proximity but outside the territory of the United Kingdom. Such location as Dieppe serves this goal quite well.

Thus, it can be seen that the purpose of the present investment project proposed by URALCHEM company for implementation in Dieppe is minimization of reputation risks in the country where the prospective outlet market for their production is located by transferring the source of these risks in the neighbouring country – that is, on the territory of Dieppe municipality, France. Such an approach presupposes the danger of further growth of risk factors because the company will initially consider Dieppe as a place where these risks occurrence is less significant as in the United

Kingdom. This factor causes considerable reduction of attractiveness of the present investment project for the citizens of Dieppe.

Conclusion

Thus, we can see that, firstly, the enterprises comprising URALCHEM holding have been controlled by the holding for just a short period of time. Secondly, many of them have several times changed their owners. And thirdly, the Company's finances are not directed to production funds renewal and the Company's production facilities development, but, on the contrary, are funnelled from the enterprises' accounts and directed to non-core assets acquisition and Company owners dividend payments. Such an approach corresponds to the practice of some representatives of business in Russia who regard their assets as an object of financial speculations rather than their company's production base. By convention, this approach assumes orientation at short-term outlook profit derivation and quick assets resale rather than at long-time ownership and support of long-term implementation projects.

The same conclusion can be made basing on the key biographical facts of Mazepin, who reminds of the frequently encountered in Russian business type of entrepreneurs who prefer quick profit derivation and passing the risks to the next owner of their assets and to other parties. Moreover, his career has been bound with the activities of structures and persons that had some problems with law. There are examples showing that URALCHEM is at the present time in the focus of juridical scandals, having proven itself a structure with doubtful loyalty to minority shareholders and co-investors.

UCC URALCHEM does not possess own finance for investment projects implementation, and the currently borrowed holding's funds only partially cover its existing debts. Thus, the investment projects being implemented are unlikely to be long-term and there is a high probability that they may be just a method for temporary finance withdrawal and further investment in some other projects, short-term as well.

Moreover, the purpose of the present investment project proposed by URALCHEM company for implementation in Dieppe is minimization of reputation risks in the country where the prospective outlet market for their production is located by transferring the source of these risks in the neighbouring country – that is, on the territory of Diepp municipality, France. Such an approach presupposes the danger of further growth of risk factors because the company will initially consider Dieppe as a place where these risks occurrence is less significant as in the United Kingdom.

All the above conclusions show URALCHEM an unreliable investor. Its readiness for long-term investments and handling of works aimed at reduction of the risks that may be associated with the implementation of the present project in Dieppe cause serious doubts.

2. URALCHEM AS AN EMPLOYER

Preamble

Representatives of URALCHEM state that about 50 new jobsites will be provided in Dieppe due to realization of the project offered by them. It is worth analyzing available facts about the work of URALCHEM holding in Russia in order to answer the question whether provision of these jobsites is advantageous for citizens of Dieppe.

2.1 Employees' working conditions

Employees work safety provision is considered the main factor. However, there have been many accidents at the enterprises being a part of URALCHEM holding in Russia, which are owners-related.

Thus on the 5th of February 2009 at 5.21 a.m. at Mineral Fertilizers Plant of Kirovo-Chepetsk Chemical Works there was an accident resulting in human death due to decompression of fertilizer unit equipment in nitrogen sulphate shop. As a result of the accident, an equipment operator born in year 1983 died. Yet another employee, born in year 1981, was injured (closed craniocerebral injury, brain concussion, closed bladebone fracture).

However, it is evident that any accidents at the enterprises, particularly those accompanied with emission of poisonous substances, affect employees' health in any case, even though the symptoms of such an effect can not be always seen right after the accident. Such accidents occurred several times at Kirovo-Chepetsk Chemical Works in year 2009.

On the 10th of June 2009 at 7.05 p.m. another accident occurred in shop No.57 of the fertilizers plant. Civil defense and emergency office of Kirovo-Chepetsk made an announcement on the accident at 7.15 p.m. There was nitrogen oxide emission due to a failure of gas purifying plant.

On the 21th of June 2009 between 7 and 10 p.m. a mist coming from the direction of the fertilizers plant was evidenced in districts 8 and 9 of the town.

On the 17th of July 2009 Kirovo-Chepetsk in the region of Vyatka River was blanketed by heavy mist with the smell of chlorine. Maximum permissible concentration of chlorine hydride in atmospheric air was officially said to be twice exceeded.

But according to the data of local ecologists more than 10 accidents resulting in harmful emissions to the atmosphere occurred at Kirovo-Chepetsk Chemical Works just in 2009.

On the 8th of September 2009 the citizens of Kirovo-Chepetsk together with chemical works employees held a mass meeting with adoption of resolution in which they above all appealed to "draw Rostekhnadzor for systematic monitoring of technology, technical safety and duly equipment

repair and renewal observation” (such phrasing was a part of the resolution adopted by the meeting participants).

Former employees of AZOT OJSC in Berezniki complained about the fact that experiments on creation of new types of products carried out at the enterprise, accompanied with major violation of equipment operation and safety rules, could invoke such consequences as large-scale explosions and emissions of chemical substances.

It was reported by mass media that within the territory of Voskresensk Mineral Fertilizers enterprise also during a long period of time large volumes of non-standard raw material waste in granules were stored; the workers had to break the granules manually, endangering their health.

Inspection of Voskresensk Mineral Fertilizers OJSC enterprise showed major violations of equipment operation endangering health and safety of the workers. Thus, by the order of Rostekhnadzor both the ammonia systems were stopped as being dangerous after six years of operation, exceeding standard period limits. One out of the two sulphuric acid systems was operating in such a mode which, according to specialists’ opinion, did not ensure its safe operation. Sulfur burning furnace was operating one week in a month during which 10-12 tons of acid was produced, after which the furnace was stopped. Such production cycle causes direct damage to people's health as stated by mass media representatives with reference to the data of Rostekhnadzor representatives. Following the results of inspection, Rostekhnadzor made 6 complaints against VMF enterprise.

It is worth paying attention to the fact that the state of **granulator towers** caused several questions from Rostekhnadzor representatives (by the way, the plant in Dieppe, if built, is to process dry urea in granules). The operation of the towers lasted 3 days with gradual clogging by chemical masses from the inside. After that, during 2 days, the workers were sent to break the buildups with pneumatic drills if not sledge hammers, endangering their health and safety.

Such way of equipment operation has, of course, led to accidents at this enterprise of URALCHEM holding as well. On the 19th of May 2009 salvo emission of mineral dust into the atmosphere from shop Ammophos-1 occurred. On the 10th of July 2009 there was another emission. The nature of the substance emitted into the atmosphere was left unknown to the wide public, however the owners of land plots (owned one- or two-storey houses on private land plots) in 5-km area around the enterprise complained about vegetation scorching on their plots.

Representatives of Rostekhnadzor stated that about 70% of the equipment at Voskresensk Mineral Fertilizers enterprise is not fit for service.

Hence, the information on operation of URALCHEM holding’s enterprises shows that labor conditions at the leading enterprises of the holding are characterized by frequent accidents which endanger the health of workers, which is a negative feature of labor conditions at these enterprises. The cause of accidents as stated in mass media papers by former enterprise workers and experts is the condition of production base (see Section 1.1.1), which is not renewed in practice and violation of

equipment operation rules installed at plants due to the enterprise fault. Such practice is recorded at several leading enterprises of the holding at the same time. Thus, this practice is indeed connected with policy of UCC URALCHEM and might be employed at new plants established by the company, not corresponding to the labor conditions common for workers in Western European countries.

2.2 Labour rights observance and persistence of working places

Another factor making labor conditions at the enterprise acceptable for citizens of Dieppe would be long-term stability of the jobsites. However, the practice of URALCHEM holding puts in doubt the fact that the company can provide the corresponding guarantees.

As stated above (see Section 1.1) in May 2008 URALCHEM became the owner of the controlling block of shares of Voskresensk Mineral Fertilizers OJSC.

And in November 2008 the enterprise management shut the plant down for the first time and began reduction of staff. Mass media accused the enterprise management of forcing the workers to write the letter of resignation from their positions under constraint (for example, see: <http://www.stringer.ru/publication.mhtml?Part=37&PubID=10407>). According to mass media data the workweek for a major part of the enterprise employees was reduced to 4 days with only half size wage maintenance. Note that the incident took place just several month after URALCHEM became the enterprise owner.

In the beginning of August 2009 URALCHEM holding completely stopped operation of the complex having terminated the whole staff of organization Ore-Dressing Enterprise (80 people) and Kormofos (more than 200 employees).

On the 29th of September 2009 at plant office of Voskresensk Mineral Fertilizers OJSC a mass meeting took place that gathered plant workers among its participants, as well as activists from wide range of parties and social movements. Participants of the meeting demanded help from the state and nationalization of the enterprise. The plant workers participated in protest actions several times what made a number of mass media call Voskresensk as “new Pikalevo” (by analogy with a town in Leningrad region where mass protest actions of workers required personal interference of Chairman of the RF Government Vladimir Putin). According to the rating of the most socially problematic Russian towns presented to the country’s leadership by vice-prime minister of the RF Government Alexander Zhukov, Voskresensk took the second place mainly due to the situation at Voskresensk Mineral Fertilizers OJSC.

In December 2009 operation of Voskresensk Mineral Fertilizers OJSC was temporary shut down, as a result of which over 4.5 thousand people lost their jobs and were left without means of leaving. As noted by the plant labor collective in their appeal to Procurator General of Russia, about

3.5 thousand people were terminated from Voskresensk Mineral Fertilizers OJSC during 2009 and about 3.5 thousand people were left with 2/3 official salary maintenance.

Discontent with the policy of the holding against its workers was also shown by employees of other enterprises controlled by URALCHEM. In particular, the workers of Kirovo-Chepetsk Chemical Works during the mass meeting held on the 8th of September 2009 together with citizens of Kirovo-Chepetsk complained about extremely low wages and demanded their increase.

Thus, it can be stated that even at enterprises owned by URALCHEM holding for a small period of time mass terminations take place (legality of which is a matter of many complaints), production is shut down, workers' wages are decreased (noting that workers had complained about the rate of wages prior to reductions already). This is why there is a high probability that such an attitude towards employees would define the policy of the holding at the new enterprise.

Conclusion

Having analyzed the experience of UCC URALCHEM OJSC activity in Russia, it is evident that the policy of the holding is characterized as follows:

- condition of production base at enterprises of the holding and methods of its operation implemented by the management result in frequent accidents and endanger workers' safety and health;

- workers of several enterprises of the holding complain about cases of labor rights violation by management representatives of the enterprises and low wages;

- at some enterprises of the holding (Voskresensk Mineral Fertilizers OJSC), several months after UCC URALCHEM had become majority shareholder of the enterprise, shutdown of production and mass terminations started; at some subdivisions of the enterprise all employees were terminated – this puts in doubt the fact that jobsites created by the holding have long-term stability;

- many enterprises of the holding became centers of protest actions and social strain and the town of Voskresensk (the place of Voskresensk Mineral Fertilizers OJSC location) took the second place in the rating of the most socially problematic Russian towns presented by vice-prime minister of the RF Government A.D Zhukov.

The conclusions presented above show that labor conditions at URALCHEM holding enterprises as well as policy of the company and management of enterprises controlled by it do not correspond to the labor conditions common for workers in Western European countries. Moreover, stability of jobsites is doubtful as well. This allows concluding that jobsites to be created at the new holding enterprises in Dieppe, if established, would be suitable rather to labor migrants whose labor conditions requirements are generally lower and who anticipate long-term labor relationship to a lesser degree than local citizens.

Hence, URALCHEM as an employer is unlikely to be interesting for the citizens of Dieppe. Moreover, the type of relationship with employees shown by URALCHEM in Russia might be used by the holding in France and become a negative example for local business representatives.

3. PUBLIC BEHAVIOR OF UCC URALCHEM OJSC REPRESENTATIVES AND DEGREE OF HOLDING TRANSPARENCY

Preamble

Public behavior is considered one of the important characteristics of any investor for citizens and authorities of the territory where it is going to implement its new projects. The key aspects are as follows:

- relationship with public organizations and mass media being important institutions of public control. This factor is directly connected with transparency of the holding's activity and is the most important characteristic thereof as well as of the ability to perform public control over its activity;
- the type of relationship with local authorities being instrument of official control closest to public.

Investor non-transparency, its conflicts with public organizations and mass media, revealed ambition to totally control local authority activities would mean that the investor's activity at new enterprise is not going to be controlled publicly.

3.1 Degree of transparency. Relationship with mass media and public organizations

The examples of accidents and labor conflicts at enterprises of UCC URALCHEM OJSC given in the sections above drew attention of public, environmental organizations and mass media. However, actions of the holding's employees were oriented towards non-transparency of the enterprises' activities as well as negligence to public representatives. Similar examples refer to several enterprises of the holding. This shows that such philosophy of URALCHEM OJSC is a tendency.

Holding representatives from AZOT OJSC in Berezniki refused in an offensive manner to cooperate with the representatives of ecological organizations who tried to perform monitoring of the enterprise's activity. Thus, on the 11th of November 2009 when Lev Alexandrovich Feodorov (the President of "For chemical safety" Union, Doctor of Chemistry) arrived to the town of Berezniki accompanied by the group of the invited ecologists, journalists and citizens aware of environmental situation in the town, the management of other two enterprises of Berezniki, Soda-Chlorate LLC and Berezniki Soda Works OJSC, provided an opportunity for the group of journalists and ecologists to

visit the territory of the plants and furnished information. While representatives of AZOT OJSC not only prevented the public delegation from accessing the plant's territory but also impeded the visual inspection of the enterprise building performed from outside the enterprise territory.

After journalists and ecologists made an attempt to perform visual inspection and video filming of enterprise AZOT OJSC in Berezniki (in particular of smoke coming from the enterprise chimney), the group of company employees accompanied by the enterprise security service tried to hinder video filming. The company representatives were not satisfied with the fact that journalists and ecologists moved away from the enterprise walls. In particular, Deputy Director for Security of URALCHEM Management Company LLC Igor Rassylnykh knocked a voice recorder out of the hands of the journalist of Berezniki newspaper City Parer Alexander Lazievsky, which was partially recorded by camera crews of Vesti-Perm and Berezniki television. Security director of AZOT OJSC Vadim Domank in his turn and head of economic security department of URALCHEM Management Company LLC Eugene Divin wordly insulted journalists and ecologists. Employees of URALCHEM Management Company LLC also threatened journalists that they would break the video cameras. After the incident several cars with employees of the enterprise security service was following the car with ecologists and journalists for a certain period of time.

In Kirovo-Chepetsk editorial staff of web site <http://www.chepetsk.ru> (information portal of the town of Kirovo-Chepetsk, Kirov region) were several times enforced by representatives of another enterprise being a part of URALCHEM holding - Mineral Fertilizers Plant of Kirovo-Chepetsk Chemical Works JSC. In October 2009 Mineral Fertilizers Plant of Kirovo-Chepetsk Chemical Works JSC threatened to make a claim against the owner of domain name <http://www.chepetsk.ru>. Messages of several visitors on web portal forum were to serve as the basis for the claim as containing information on the use of unserviceable gas purifying units at production sites of Mineral Fertilizers Plant of Kirovo-Chepetsk Chemical Works JSC. On the 20th of December 2009, under the pressure from the company representatives, web site <http://www.chepetsk.ru> operation was stopped for the period of 10 days. The reason for web site operation shutdown as stated in address of <http://www.chepetsk.ru> site editorial to its readers was “enforcement and practically **open threatening** from representatives of openly known chemical holding with no adequate reaction of power structures”.

The policy of URALCHEM holding in Voskresensk is also characterized by offensive actions towards representatives of mass media (to be further described in details in Section 3.2).

Thus, relationship of URALCHEM holding representatives towards mass media is characterized as follows:

- ambition to maintain maximum nontransparency of the holding activity, including problems of public character and concerning interests of citizens of the towns where holding enterprises are operating as well as concerning protection of citizens rights for comfort and healthy environment.

- extremely offensive (even for Russia) methods of enforcement and relationship with public and mass media representatives.

This shows that it is of high probability that such methods are to be used in the new territories as well, where new projects of the holding are to be realized.

3.2. Relationship with local authorities

Relationship between UCC URALCHEM OJSC and of several local administrations of municipalities where company enterprises are situated is characterized by ambition to achieve total control over the authorities of these towns and maintain this influence by implementing any available means.

Public activists speak about total influence of the holding on authorities of several towns where holding enterprises are situated. Thus, activists while trying to organize mass meeting demanding to take measures against management of Kirovo-Chepetsk Chemical Works and UCC URALCHEM OJSC endangering ecological situation in the town (see Section 4.1), as well as workers health (see Sections 2.1. and 2.2) faced hard opposition from both Kirovo-Chepetsk Chemical Works representatives and municipal administration headed by mayor Anatoly Chekanov.

More obvious is cooperation between municipal administration and URALCHEM representatives in Voskresensk. On the 29th of September 29 2009, during mass meeting of Voskresensk Mineral Fertilizers OJSC workers held near the plant office, appeal to the President of Russia Dmitry Medvedev and Prime Minister Vladimir Putin was adopted saying in particular the follows: “Activity of the plant management is concealed by the head of administration who is doing nothing to protect the workers”.

Bankruptcy procedure of unitary enterprise Housing Operating Service of Housing and Utilities was also considered to be started due to the influence of Voskresensk mayor Yury Sleptsov in order to merge it with intermunicipal sewage facilities which are on balance of the works instead of town or region.

Finally, on the 11th of October 2009 Voskresensk mayor elections were held that are considered the most scandalous among those held on this day in Russia and have caused great public discussions. Opposition representatives submitted a long list of law violations during the counting of votes. Protest actions were held in towns participants of which accused town mayor to be in cahoot with URALCHEM representatives.

However, URALCHEM representatives also took direct part in activities accompanied the town mayor election conflict. On the 13th of October 2009 office and cutting room of Voskresensk cable channel VEKT (Voskresensk, Moscow region) were occupied by security officers of Voskresensk

Mineral Fertilizers JSC being a part of UCC URALCHEM OJSC holding. Security men took mobile phones away from the journalists and prevented visitors from entering the rooms. Representatives of television company believe these actions of security services of Voskresensk Mineral Fertilizers JSC were connected with the fact that on the 12th of October Voskresensk cable channel VEKT had shown item in evening news about supporters of candidate for mayor Gennady Egorov who tried to become members of the territorial election commission and wrest out the announcement of election results. Gennady Egorov was the opposition candidate, while representatives of *Voskresensk Mineral Fertilizers JSC* supported the other candidate, acting town mayor Yury Sleptsov. VEKT office and studio blocking was released only after representatives of Voskresensk Mineral Fertilizers JSC found out that the video clip with the news item had already been downloaded on Youtube.

Thus, it is evident that URALCHEM representatives got used to that model of relationship with local authorities which suggests subordination of these officials to influence of the holding. If there is a threatening possibility of people not related to the company coming to power the company representatives use rough measures not to admit this. There is a risk that such practice might be used by the holding representatives in those municipalities where new projects of the holding are being implemented.

Conclusion

The analysis of history of UCC URALCHEM OJSC operation shows that activity of the company is characterized by ambition to maintain maximum non-transparency. For this purpose the company uses rough enforcement on independent mass media and public organizations as well as subordination of local authorities to the influence of the company, interference of the holding representatives in political process at municipality level. There is a risk that such practice might be used by the holding representatives in those municipalities where new projects of the holding are being implemented.

4. ON ENVIRONMENTAL SITUATION AT ENTERPRISES OF URALCHEM COMPANY

Preamble

United Chemical Company URALCHEM OJSC (UCC URALCHEM OJSC) was registered on the 30th of October 2007. The company's shareholders are offshore structures under the control of an entrepreneur Dmitry Mazepin.

From the beginning of its activity, by the decision of the administration, URALCHEM began following the policy of information closure covering environmental matters. Only tragic events

connected with numerous incidents and failures that occurred at the enterprises of the company and led to considerable environmental degradation in regions of their activity have made URALCHEM's administration respond to the current situation and reveal some aspects of the company's environmental policy. According to experts, the catastrophic ecology situation has developed at all enterprises of URALCHEM, without an exception, due to considerably worn-out state of the equipment, shortage of qualified personnel and performance of unsafe engineering experiments for a new production start-up in order to gain a here-and-now profit.

4.1. B.P. Konstantinov Kirovo-Chepetsk Chemical Works JSC (KCCW JSC), Kirovo-Chepetsk, Kirovsk region

The plant construction began in 1938. However due to the Second World War it was put into operation in 1946 only. At the time of USSR the plant was under the Ministry of Medium-Scale Machine Building that was also responsible for the activity of development of nuclear and defence industry. Therefore, the plant performed many orders for enterprises of those industrial areas.

At present radioactive waste storages and production facilities for storage of KCCW waste, located in the water protective zone of the Vyatka River, are the main environment threats in the region. Since 2003 all radioactive nuclide production and storage facilities are the national property. There are 473 thousand tons of radioactive hazardous waste including 53 thousand tons of medium level waste and 384 thousand tons of low level waste in the storages. A part of production buildings and storages of KCCW contaminated by plutonium and uranium is in emergency condition and is a source of additional radioactive nuclide discharge into the environment. Prosnoye Lake being in close proximity to the plant is contaminated with radioactive waste. A source of radioactive nuclide discharge into the lake was output by Kirovo-Chepetsk Chemical Works until 1992. The lake inspection revealed that the radioactive pollution area is a hard-to-reach wetland. The secondly removal of technogenic deposits from the lake is difficult as the surface of technogenic deposits is grass-covered, there is a compact gypsum crust everywhere at a depth of 0.5 – 0.6 m from the lake bottom.

In 2001 the first deputy Minister of the Russian Federation on the atomic energy passed the design assignment for feasibility study of actions for decommissioning, bringing into line with effective standards and rules of facilities for treatment of radioactive wastes and radioactive waste storages at KCCW JSC. Estimated cost for execution of such actions amounts to 41 mln. roubles. However a problem regarding diverting mentioned money has not been resolved today.

In addition numerous inspections of KCCW being performed by different authorities has revealed that the plant violates the water law in the course of economic activity. Particularly KCCW JSC discharges sewages within the boundary of the water intake sanitary area in Kirov. According to

Clause 44 of the water law of the Russian Federation discharge of sewerage and drainage water into water bodies located within the boundaries of sanitary protection of drinking water and household sources is unlawful.

As a result water in the largest water source – the Vyatka River – does not meet the effective standards and parameters. 45 % of all sewage in the region is discharged to a level of Kirovsk water intake. The largest contaminator is Kirovo-Chepetsk Chemical Works that discharges waste within the second line of the water protection area of Kirovsk water intake. Only in 2008 along with sewage KCCW discharged 30 thousand tons of pollutants in the Vyatka River, among them there were ammonium nitrogen, nitrate nitrogen and rest of hazardous chemical substances.

Over the last five years the plant (KCCW is under control of structures of D. Mazepin since 2004) repeatedly incurred integrated checks from the side of different agencies including the Ministry of natural resources, Rosprirodnadzor and Rostekhnadzor. The inspections have revealed the most serious violation of environment and pollution control regulations, among those inspections the facts of repeated increase of maximum allowable concentration of hazard substance sequence in the plant emissions have been revealed, approval documents issued with violation of all specified regulations have been found, non-observance of the terms of contracts for water use by KCCW has been revealed. In October 2009 the specialists of the ecological organization "Green Patrol" made public the results of its studies which contained the information about environment pollution by KCCW. "There was registered pollution of the Yelkhovka River in the way of Kirovo-Chepetsk petroleum storage depot and KCCW with mill water. There was revealed excess of maximum allowable concentration of oil products – in 6.4 times, total iron content – in 4.5 times", - was said in the report.

Nevertheless outrageous violation of ecology, URALCHEM administration cheerfully reports about significant investments made by the company to solve environmental problems.

However according to the mass media information the situation is absolutely opposite to that which has been shown by URALCHEM managers in their public speaking. Particularly according to the mass media information this complex environmental situation at the enterprises of URALCHEM has happened due to progressively decreasing attention of the company administration to the environmental projects. Perhaps a reason of such an attitude is that the holding experiences financial difficulties at the present time. Net indebtedness of URALCHEM reaches 1.5 bln. USD; the company's assets are pledged in creditor banks against credits. Meanwhile private income of Dmitry Mazepin – the owner of URALCHEM as per different estimates amounts to about 800 mln USD. However, the owner has appearingly no wish to invest his own money earned due to URALCHEM enterprises' activity.

According to the data of the State Institute of nitrogen making industry in 2008 at Kirovo-Chepetsk chemical plant the number of emergency shutdowns of main machines increased sevenfold to 2007, and idle time period increased fourfold.

In September 2009 in Kirovo-Chepetsk a mass meeting of local citizens took place, during which the participants called for nationalization of KCCW and impeached credibility of URALCHEM administration being unable to get over environmental problems. According to the meeting participants, in recent years unapproved emissions of harmful pollutants in the atmospheric air have taken place regularly at Kirovo-Chepetsk chemical plant whereby the local inhabitants suffer. According to the results of the meeting the resolution with calling on the President of Russia, Dmitry Medvedev, the Chairman of the Government of the Russian Federation, Vladimir Putin, speakers of both Houses of Parliament to Sergey Mironov and Boris Gryzlov, and also the governor of the Kirovskaya oblast, Nikita Belykh, has been accepted. In this resolution the inhabitants required to create an impersonal and open environmental control system irrespective of KCCW; to involve Rostekhnadzor for regular control of observance of technology, technical safety and timely repair, and equipment update. The protesters also decided to set up “Committee of Saving” among initiative inhabitants of Kirovo-Chepetsk to control activity of enterprises and administration of Kirovo-Chepetsk as for ecology.

On the 5th of February 2009, at Mineral Fertilizers Plant of KCCW (MFP KCCW) there was a pipeline break with the further partial failure of pipeline equipment whereby one man died and the plant area was contaminated with sulphuric acid. Meanwhile supervisors from Rosprirodnadzor department within Kirovsk region, which arrived to make the required measurements of pollutants, were not admitted to the plant area. According to the results of subsequent check upon the break performed by a commission of Rostekhnadzor, it has been established that at a violation of explosion safety rules took place at the stage of preparation of initial data for technological process, switching off locking to parameters, inconformity of technological process to parameters provided by the design documentation, in particular, to critical temperature values. In addition the commission has found that at the enterprise there was “unsatisfactory organization of process control for observance of industrial safety requirements at hazardous facilities”.

The accident happened while producing ammonium nitrate at a nitrosulphate recovery plant.

The commission has found that when stopping supply of nitric acid solution to ammonium nitrate converter, sulphuric acid was still supplied into it and reacted with ammonia being supplied. As a result, temperature jumped in the converter and in salt melt pipeline, which in its turn resulted in explosion.

On the 10th of June 2009 an incident happened in shop No. 57 of KCCW again. As a result of damage at the gas recovery plant, nitrogen oxide emission occurred. In total, according to data of local environmentalist, within the last year more than 10 off-normal situations have happened at KCCW which resulted in emission of harmful pollutants in the atmospheric air.

4.2. AZOT OJSC, Berezniki, Perm region

Construction of the enterprise began in 1929; the first output was produced in 1932. The environmental situation at one of the key enterprises of URALCHEM is also far from being ideal nowadays. Within 2008 – 2009 at the enterprise incidents of different kinds took place, which resulted in emission of pollutants in the atmospheric air. However, URALCHEM and AZOT administrations did not reveal the data on the enterprise environmental problems, trying, if possible, to hold back it from public to the maximum.

In particular on the 11th of July 2009 there was ammonia emission at AZOT. Official data on the emergency were not made public, however it is known that toxic gas cloud travelled sidelong residential districts of Berezniki.

On the 14th of July the same year there was a large-scale fire at AZOT. Turbine oil was on fire at the compression compartment of shop No. 1a. The fire damaged the shop cable ducts and windows. The fire was classified as 3rd complexity class. 16 units of equipment and 56 persons of the staff were sent for suppression. On arrival of fire fighting units, tight black smoke blew off from windows of the first floor windows of the shop building. In one hour the fire was brought under control, and nobody suffered. The cause of fire was violation of production process procedure (turbine oil supply pipeline was unsealed and contacted with a steam pipeline).

In November of last year security of AZOT OJSC in Berezniki initiated a scandal and fight with environmentalists and journalists when those tried to inspect the territory adjoining to the chemical plant.

Using swear words and threats to act of force, personnel of URALCHEM disallowed a famous Russian environmentalist and scientist, Lev Fyodorov, who arrived to Berezniki from Moscow, to approach the enterprise, and journalists accompanying him – to make a video record of smoking plant pipes of AZOT.

On the 12th of November 2009 when the scientist and a group of journalists inspected the town territory near AZOT OJSC as the inhabitants reported of regular emissions, a group of the enterprise's leaders left the plant office being accompanied by security men. Threatening with beating and stoking up the war of words with use of swear words, URALCHEM personnel covered camera lenses with hands and tried to knocked equipment from the journalists' hands. In order to avoid the fight the operators had to stop recording smoking plant pipes, and the ecologists had to stop their inspection. After the incident several cars of safety men from URALCHEM branch in Berezniki were at the back of Lev Fyodorov's car trying to exert psychological pressure.

In December 2009 an affiliated company of AZOT OJSC – Promkanal occupied the first place among the enterprises which discharged the greatest amount of pollutants into water bodies of Perm region. This rating was presented by Independent Ecological Rating Agency (NERA), one of

the most competent ecological organizations in Russia having close cooperation with World Bank. Rating of NERA demonstrates that only this industrial facility discharges nearly a half (44 %) of total amount of pollutants into the Kama river. In this regard according to reports of ecologists Promkanal gives no information about measures being performed or planned to change this situation.

In addition on the 11th of December last year in the course of session of the Government Commission in Berezniki a leader of Rosprirodnadzor in Perm Region claimed that “the most critical environmental situation in Berezniki has occurred at Beraton OJSC and Promkanal LLC – affiliated company of AZOT OJSC (UCC URALCHEM OJSC)”.

It should be noted that leaders of URALCHEM and AZOT prevent representatives of municipal administration in Berezniki from receiving any information about the environmental situation at the enterprise, which is lawful right of public officers, in every way. Therefore, such unlawful closure of AZOT in respect of environmental matters have resulted in a conflict with the town administration that risks commencement of juridical proceeding.

4.3. Voskresensk Mineral Fertilizers OJSC (VMF OJSC), Voskresensk, Moscow region

VMF is one of the oldest enterprises of mineral fertilizers industry in Russia. It was put into operation in 1930. At VMR there are extensive environmental problems which are in no way solved by URALCHEM leaders. The causes of most of them are the extremely worn-out equipment, a part of which has not been not modernized since the plant has been founded, and unsafe engineering experiments that were started by URALCHEM specialists after gaining control over VMF in June 2008.

Historically, VMF was manufacturing phosphoric fertilizers only, however URALCHEM leaders have decided to implement manufacture of various ranks of compound fertilizers at the enterprise. But they did not manage to ensure suitable quality of new products, despite multimillion investments in implementation of this project and all the time spent. As a result, a part of equipment, already far from being new, has finally got out of order and is now beyond repair. Experts suppose that manufacturing of compound fertilizers at facilities for ammonium phosphate fertilizer production is a technological adventure. After all, such transition to a new production requires not only design study, but also actual months-long reconstruction of the whole shop, including processes of granulation and finished goods drying.

For a long time VMF activity was a source of environment pollution in Voskresensk. Since VMF passed under the control of Dmitry Mazepin’s holding URALCHEM its managers have shown persistent negligence of environment safety matters. Voskresensk inhabitants regularly drew the attention of regulatory authorities to non-observance of the required environmental standards and a great number of violations at VMF. In its turn, in May of last year Rosprirodnadzor Department in

the Central federal district directed to the address of Voskresensk Mineral Fertilizers some regulations in connection with violation of environment standards by the enterprise, and also declared that it would plan cessation of VMF activity due to numerous outrageous violations in the sphere of ecology. Explaining the tough line of the department, Deputy Head of Federal Service for Nature Management Supervision Aleksey Akulov declared that such neglect and orderless relation to environmental safety matters from VMF leaders is inadmissible.

Recently, emissions of harmful pollutants in the atmospheric air have regularly taken place at VMF. On the 19th of May last year salvo emission of mineral dust into the atmosphere from shop Ammophos-1 occurred. According to data of Rosprirodnadzor this emission had such concentration that it could be seen visually at a distance of 300 - 500 m. On the 10th of July at VMF there was a salvo emission of unclear substance that resulted in vegetation scorching at the area of horticultural cooperative "Khimik-1", "Khimik-2" and "Khimik-3" (5-km area around the enterprise).

In June of last year Rostekhnadzor had to prescribe an integrated check of VMF. Inhabitants of Voskresensk and personnel of VMF OJSC made Rostekhnadzor pay close attention to technical condition and environment safety of the plant in Voskresensk having sent open letters to the address of the Presidential Administration of the Russian Federation, the State Duma and members of the Public Chamber. One of the letters was addressed to the head of Sberbank, German Gref. Inhabitants of Voskresensk asked Sberbank to take the stock of VMF shares being in pawn of the bank under its control. They warned about unsafe technological experiments being performed by the new proprietor which could lead to a technogenic accident.

On the 19th of September 2009 in Voskresensk there was a meeting of inhabitants where they called on the President of Russia, Dmitry Medvedev and the Chairman of the Government of the Russian Federation, Vladimir Putin, asking to nationalize the enterprise being actually on the verge of bankruptcy, proprietor of which, URALCHEM could not provide guaranteed employment of personnel and production safety. Instead, the town is periodically exposed to emissions of aggressive chemicals from factory facilities, as the participants of the meeting noted. The statistical data illustrate that more and more children have been born recently in Voskresensk who have congenital pulmonology, and only decisive actions of authorities can stop it.

At the present time, technical condition of VMF can be marked as catastrophic. Ammonia production was put into operation in 1970 and the equipment service limit has been long time since exceeded. According to the report of Rostekhnadzor all "high-pressure vessels" i.e. the ammonia production equipment should have been decommissioned in April, 2007. In addition, VMF phosphogypsum disposal site has completely worked out its capacity and it is used above level. This means that, when design levels are exceeded, the disposal mass may start creeping as batter on a frying pan.

The town ecologists have already been raising the alarm, in April of last year they sent a letter to Rostekhnadzor with their request to check execution of regulations of this department which have been issued to VMF in 2007. And fear of ecologists can be understood, after all ammonia converters which are about 40 years old are extremely dangerous. Ammonia leakage in the big town is not only an environmental problem: ammonia cloud is in fact chemical war gas.

On the 4th of December 2009 the proprietor of URALCHEM, Dmitry Mazepin declared complete stop of VMF. However, it happened due to his inept management resulting in critical condition of the enterprise, according to information of mass media, but not due to his sudden worry about the ecology. Having walked back raw materials purchasing – apatite concentrate – from the main supplier, Apatite OJSC (being a part of Forsago holding), Mazepin set the plant on the verge of survival, having lowered its production volume down to the lowest level in its lifetime. Mazepin explained this stop with the fact that the enterprise did not bring profit, and he laid the corporate conflict with Forsago to charge; this conflict has been lasting for about one and a half years and has become a large-scale suit covered on the pages of various mass media editions.

Ecologists are seriously worried about the decision of Dmitry Mazepin to stop VMF. They worry about uncontrolled storage of considerable quantity of hazardous chemical substances at VMF and they are planning to make the state to take vigorous measures in regard to the owner of VMF. Today inhabitants of Moscow suburbs are sure that the plant stop without performance of special complex of actions for preservation of dangerous chemical production may provoke environmental situation breakdown. Considering that Voskresensk ecology has recently been lack finish, this breakdown can set Voskresensk on the verge of technogenic catastrophe. Tens of thousands tons of hazardous chemicals – waste of mineral fertilizer production, non-standard raw materials – have appeared just left at the enterprise territory. Compounds of ammonia, chlorine, phosphorus, sulphur, plumbum, arsenic, potassium being stored watchless at the stopped workshops can be explosive and provoke an emergency regarding emission of virulent toxics. The left dumps of scrap metal and industrial waste impregnated with toxic compounds may cause ingress of harmful elements into underground waters and the water of the Moskva river which is sure to reflect on potable water quality. In this situation both the environment and people whose health and life are under threat can seriously suffer .

In connection with the situation developed an initiative group of citizens in Voskresensk has invited the head of ecological group “Green Oecumene”, Roman Yushkov, a representative of such a competent public organizations as “International Socio-Ecological Union» and the All-Russia union “For Chemical Safety”. Mr. Yushkov met with the worried citizens and personnel of the enterprise. A public delegation visited the enterprise territory and inspected purification treatment plants at VMF. As they say in the press release of “Green Oecumene”, Mr. Yushkov has made a critical assessment of this situation and has noticed that fears of the inhabitants are justified. In particular the ecologist

was passed about a story of former workers of VMF about specificity of toxics storage in workshops and violations of process procedures regarding chemical compounds handling. According to the workers, the administration “made strange experiments at the enterprise which resulted in a lot of failures and full equipment degradation”.

At end of the meeting with inhabitants of Voskresensk, Roman Yushkov said he was planning to ask for support from the president of the Union “For Chemical Safety”, Lev Fyodorov, and to insist on inspecting VMF with participation of public representatives, EMERCOM and state environmental authorities. However, it is not clear how URALCHEM being known as inhospitable will react at this inspection team coming. Earlier the holding prevented representatives of Rostekhnadzor and Rosprirodnadzor from inspection at VMF and rest of enterprises of URALCHEM in every possible way, and also refused to accept and sign the inspection reports that were unsatisfactory.

Conclusion

According to the experts, today URALCHEM is in the most severe situation both in terms of catastrophic debt load (about 1.5 billion USD), and in terms of technical condition of the equipment at the enterprises. The technical heritage at the enterprises that URALCHEM has got from the Soviet period is now in an emergency state that leads to numerous incidents including loss of life. Certainly, URALCHEM administration is guilty of it, as they have minimized re-equipment and modernization of the enterprises and created intolerable working conditions for highly skilled specialists at the plants. Besides, instead of structural interaction with regard to environmental matters with administrations of settlements where the company carried on business, with local residents, ecological organizations and representatives of the corresponding government institutions, URALCHEM leaders hold back the required information on incidents and failures that happened and compromise people’s life and health, keep out of the enterprise territories to perform duties of representatives of state authorities, prosecute and threaten members of the ecological organizations and journalists.

It should be noted that the tragic incidents which have been resulted in loss of life, and emissions of pollutants often take place at enterprises of URALCHEM during implementation of unsafe technological experiments for manufacture of new products by means of outdated equipment. Instead of the corresponding preparation and going to the necessary expense for modernization, experts of URALCHEM try to start up production of new products by means of facilities designed for absolutely other ranks of fertilizers in order to gain a hear-and-now profit. This has also resulted in accidents. Implementation of project for 32:0:0:5 (NS 32:5) nitrosulphate (ASN) production at KCCW can be made as an example. Because of insufficient preparation, lack of new equipment and shortage of qualified personnel, on the 5th of February 2009 there was an explosion at KCCW during

production of ammonium nitrate at a nitrosulphate recovery plant; one worker died and another was seriously injured. At the same time, to promote this product intensive marketing campaign was waged in Europe. Great Britain, France, Italy, Poland, the Scandinavia and the Baltics shall become the primary markets for this product.

In the course of the whole lifetime URALCHEM has managed to implement not a single significant investment project either in Russia or abroad despite loud statements of the company leaders during various international forums. As noted above, implementation of some of them resulted in deplorable consequences. Therefore, there are anticipations that the present and future investment projects of URALCHEM which the company has declared can repeat the same fate with possible tragic consequences.

CONCLUSION

Analysis of UCC URALCHEM OJSC activity shows that:

- URALCHEM is an unreliable investor. Its readiness for long-term investments (and availability of the corresponding finance) and handling of works aimed at reduction of the risks that may be associated with the implementation of the present project in Dieppe cause serious doubts. Moreover, the purpose of the present investment project proposed by URALCHEM company for implementation in Dieppe is minimization of reputation risks in the country where the prospective outlet market for their production is located (i.e. the United Kingdom) by transferring the source of these risks in the neighbouring country – that is, on the territory of Diepp municipality, France. Such an approach presupposes the danger of further growth of risk factors because the company will initially consider Dieppe as a place where these risks occurrence is less significant as in the United Kingdom;

- URALCHEM as an employer is unlikely to present interest for the citizens of Dieppe, as the holding method is evaluated as neglect of significant rights and interests of personnel as well as non-observance of conditions ensuring safety of personnel's life and health. Moreover, the type of relationship with employees shown by URALCHEM in Russia might be used by the holding in France and become a negative example for local business representatives;

- the company's activity is characterized by attempts to keep maximum non-transparency. For this purpose the company uses rough enforcement on independent mass media and public organizations as well as subordination of local authorities to the influence of the company, interference of the holding representatives in political process at municipality level. There is a risk that such practice might be used by the holding representatives in those municipalities where new projects of the holding are being implemented;

- the holding's activity involves regular emergencies at its enterprises and extensive ecological risks resulting from these emergencies and from the approach to the technological process from the side of the holding administration. This imposes threats for ecological situation in the municipality and neighbouring areas.

This means that implementation of projects of UCC URALCHEM OJSC in Dieppe will not just have no favourable effects for inhabitants of the municipality but, on the contrary, will be connected with a number of risks including transferring the holding's practices from Russia to France.

Russians have dealt with such methods of business conduct more than once – it is very difficult to struggle against these methods. Expansion of those who manifests such opinions shall not be permitted in EC countries economic life – and then an additional possibility will turn up in Russia to struggle effectively against their methods.