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**WORKSHOP ON THE SITUATION IN THE STEEL INDUSTRY IN THE NIS
FINANCING THE RESTRUCTURING OF RUSSIAN FERROUS METALLURGY**

Note by the Government of the Russian Federation

The Workshop will be held in Paris on 2-3 November 1999

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FINANCING THE RESTRUCTURING OF RUSSIAN FERROUS METALLURGY

Financing the restructuring is a major element of its successful implementation. Experience of restructuring of ferrous metallurgy in the countries of the EU, the USA, Japan and others shows that 60-70 dollars per tonne of steel is required for these purposes. The considerable part of the investments was covered by the state help and off-budget funds. In Russia there are neither funds in the budget nor off-budget funds for these purposes.

The structure of investment financing in ferrous metallurgy of Russia over the period of 1992-1998 has been as follows:

Own funds of the companies (amortization and profit - 68,5 %, budgetary funds - 4,8 %, including Federal budget - 2,3 %, borrowings (loans of Russian and foreign banks) - 26,8 %.

Under the new program (for 1998 - 2005) it is provided that the structure should be: own funds of the companies - 75 % (including: profit - 25 %, amortization - 75 %); the budgetary funds - 1,4 %; the loans of commercial banks - 18,8 %; the foreign investments - 4,8 %. As a whole restructuring costs in Russia over the period of 1992-1998 have compounded 56.3 dollars per tonne and will compound about 60.0 dollars per tonne of steel during 2000-2005. The attraction of foreign investments into the metallurgical complex of Russia was insignificant. For the branch as a whole the sum of foreign loans obtained was about 70.0 million dollars, including: the consortium of the German banks for Orskohalilovskiy metallurgical complex – 21.6 million dollars and Oskolskiy electro-metallurgical complex – 33.4 million dollars. The opening of credit lines for Magnitogorskiy metallurgical complex and Lebedinskiy ore mining and processing complex is now being completed. Thus, the main source of financing the capital investments in ferrous metallurgy of Russia is own funds (68-75 %). The bank loans (domestic and foreign) were stabilized at the level of 22-25 %. Credit rates in Russia are rather high (above 60 % per annum), which hampers Russian companies to use domestic bank loans. The attraction of foreign investments is limited to the warranties, included into the budgets (federal and regional). The creation of joint ventures is limited because of unattractiveness of shares of the Russian metallurgical companies and limitation of their issue.

The role of the state in investment financing into ferrous metallurgy of Russia is negligible (it has decreased from 4.8 % to 1.4 %) and does not exert essential influence on restructuring. We consider it expedient to attract foreign banks investments into export metal production. But for this purpose it is necessary to liberalize trade, i.e. to eliminate quotas in the EU and the USA for 5-7 years, i.e. till 2005. As legislative basis we consider it most perspective to implement accelerated amortization with service life of the obsolete equipment no more than 5-7 years and decrease in the tax on profits, invested into technical restructuring, stipulated by Federal program. But in view of the budget deficit the acceptance of these acts is being delayed.