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WORKSHOP ON THE SITUATION IN THE STEEL INDUSTRY IN THE NIS

GENERAL OVERVIEW OF THE ECONOMIC SITUATION AND OF THE STEEL SECTOR IN THE NIS

Note by the Government of the Russian Federation

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

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GENERAL OVERVIEW OF THE ECONOMIC SITUATION AND OF THE STEEL SECTOR IN THE NIS

Features of the steel market and of the steel industry in Russia

1. The situation of the economy of Russia

In 1999 the economic situation of Russia began to recover from its crisis, caused by ruble devaluation in August 1998, and the economic crises in countries of Southeast Asia and Latin America. Over the first 9 months of 1999, the general economic situation in Russia is characterised by the following data:

	%
Gross domestic product	97.1
Investments into fixed capital	99.2
Foreign trade turnover, total	71.5
• Including Exports	88.0
• Including Imports	54.5
Real earnings of the population	74.5
Retail turnover	85.6
Volume of industrial output	104.5

As is obvious from the above data, almost all macroeconomic parameters decreased and only the volume of industrial output increased by 4.5%. It indicates, that the main industries have recovered from the crisis and that the production is reviving, which is attributed to the growth in domestic consumption. After the ruble devaluation (its rate decreased more than 4-fold), the increase in domestic prices was much lower: in power engineering 108.5%; in fuel industry 165.4%; including coking coal 121.3%; in ferrous metallurgy 160.7%; in engineering industry 167.2%; in construction materials 127.8; in freight service 120.3%. With the increase in agricultural production prices and consumer goods prices as a whole, the Russian domestic market prices have nearly doubled after the devaluation of ruble. It has created actual conditions for growth in domestic consumption, which affected the index of growth in industrial output and resulted in decline in imports. The unemployment tends to be decreasing: over the 9 months period of 1999 it amounted to 98.0% of the value over the corresponding period of 1998.

2. The situation in ferrous metallurgy of Russia

The ferrous metallurgy of Russia has mainly overcome the consequences of the financial crisis and increased its production within the whole industry by 5.2%. The absolute and relative data on the volume of the main kinds of production and their growth over 9 months of 1999 are as follows:

	Volume of production, million tonnes	As compared to 9 months of 1998, %
1. Ore	60.3	109.3
2. Coke	20.7	117.5
3. Pig iron	29.3	106.2
4. Steel	37.3	108.6
5. Rolled products	29.8	116.0
6. Tubes	2.2	99.5

Growth in production of practically all types of metal products increased, except for tubes. Accordingly, the consumption of raw materials increased. In particular, the production of coking coal increased by 9.4%.

The growth in metal consumption in Russia is the result of an increase in demand for steel from the main customers, such as: railway engineering 104.6%, including carriages 120.6%; diesel locomotives 110.7%; automobile industry 111.4%, including trucks 122.4%, cars 109.5%; tractor and agricultural engineering 137.4%.

Capacity utilisation still remains at a low level with an average rate of 66.3%, including: iron-ore production 86%, coke 72%, pig iron 70%, steel 68%, rolled products 73%, tubes 35%.

In ferrous metallurgy of Russia, technical re-equipment and modernisation of productive capacity, provided for by the program of the metallurgical industry development for 1993-2000, is underway.

As a result of implementation of these measures there are positive changes in the structure of steel-making production. In particular, the portion of the oxygen-converter industry increased from 57.8% to 58.3%; the portion of the electric furnace steel making increased from 13.2% to 13.5%, the portion of the open-hearth production decreased from 29.0% to 28.2%; the portion of continuous steel casting increased from 48.7% to 49.3%.

The exports of ferrous metals from Russia in 1999 has an upward tendency and on average this growth compounded 109.0%. However, this rise does not outweigh the decline in exports which in 1998 was about 5.0 mln. tonnes. As a whole, the exports volumes are expected to grow by nearly 2.0 mln. tonnes in 1999 as compared to 1998. But the total exports in 1999 will be 3 mln. tonnes lower than those in 1997. The exports structure did not change and in 1997 it compounded: semis – 42.6%, flat products – 37.3%, long products – 20.1%; in 1998: semis – 33.3%, flat products – 47.8%, long products – 18.9%. The imports practically remained at the level of 1997 and amounted to 1.6 mln. tonnes. However, it is necessary to point out, that except for the direct imports of metal products themselves, considerable volumes of metal products are imported to Russia in the form of machines and equipment, for example, the portion of imports in consumption of cars makes 19%, tractors – 37%, metal-cutting machines – 22%, household refrigerators – 17% .

Indices of production, consumption, exports and imports of ferrous metal products are provided in the appendices (See tables 1, 2, 3).

3. The outlook of the Russian ferrous metallurgy development for 2000-2002 .

In 2000 the domestic demand for and the volume of ferrous metal production are expected to increase by 2% as compared to 1999.

By 2002 further growth in the volume of production of ferrous metals is expected, basically due to the increase in domestic demand, in particular at the expense of the development of domestic engineering, agriculture, building and other industries. By 2000 the production of finished rolled products of ferrous metals is expected to reach the level of 37.8 mln tonnes (increase by 10.9% as compared to 1998).

For the period of 2000-2002 the growth in capacity is expected as follows: at JSC "Oskol Electric Steel Works" due to putting into production a new rolling mill "350" with capacity of 1.0 mln. tonnes of long products per year; at JSC «Magnitogorsk Iron&Steel Works» due to the construction of cold rolling department with capacity of 2.0 mln. tonnes of cold-rolled sheet per year; at JSC «NOSTA» due to renovations of the plate mill with the capacity input of 1.0 mln. tonnes of heavy plate of a "northern" design for tube plants. The growth in continuous steel casting capacities: by 2.0 mln tonnes at JSC "Severstal", by 1.0 mln. tons at JSC "Nizhny Tagil Iron&Steel works", by 1.6 mln. tons at «West-Siberian Steel Corporation», by 3.2 mln. tons at "Chelyabinsk Iron&Steel Works", by 0.7 mln. tons at «Taganrog Iron&Steel Works".

As a result of an increase in demand for tubes from the companies of the gas-oil complex (about 50% of all tubes production), of engineering and metal-working industries (about 30% of all of tubes production) **-** by 3% and 29% respectively by 2002, tubes production is expected to grow by 5%.

By 2005 the demand for metal products and building materials in the domestic market is expected to grow by 35-40%, as compared to the level of 1998, which will be met at the expense of growth in rolling production by 25%, and the remaining demand will be satisfied due to reduction in exports of rolled products.

APPENDICES

Table 1. The situation in the rolled products market of Russia in 1997-1998 and 9 month of 1999

Activities	1997	1998	9 month* 1999	1999/1998 %
Rolling production, mln. tons	37.8	34.1	29.8	116.0
Rolling imports, mln. tons	1.6	1.6	0.6	51.9
Rolling exports, mln. tons	27.0	21.8	17.8	109.0
Domestic consumption, mln. tons	12.4	13.9	12.6	90.6
Imports/Consumption, %	12.9	11.5	4.8	41.7
Exports/Production, %	71.4	63.9	59.7	93.4

* Preliminary estimate.

Table 2. Exports of rolled products and tubes from Russia over 1997-1998

Thousands tons

Countries and regions	**1997**					1998				
	Semis	Flat products	Long products	Total	**TUBES**	Semis	Flat products	Long products	Total	Tubes
North America	2344.5	4248.1	328.5	6921.1	3.2	1345.0	4348.0	310.1	6003.1	3.0
South America	-	269.1	13.5	282.6	-	-	270.1	10.5	280.6	-
Western Europe	3801.0	1754.2	397.6	5952.8	73.0	2781.0	1760.1	383.2	4944.3	90.0
Including the EU	1202.3	979.6	323.8	2505.7	69.4	702.3	980.2	320.3	2002.8	85.0
Central and Eastern Europe	515.8	338.2	225.1	1079.1	16.7	415.8	340.2	220.4	976.4	15.3
CIS	28.0	152.7	235.4	416.1	154.1	28.0	163.0	230.2	421.2	124.2
Asia and countries of Pacific region	3506.3	2465.2	3780.3	9751.8	20.5	1506.3	2565.3	2450.3	6521.6	20.3
Africa and the Middle East	1213.5	901.3	482.9	2597.7	26.0	1139.2	962.4	518.5	2620.1	20.8
Total:	11409.1	10128.8	5463.3	27001.2	292.5	7235.3	10408.8	4123.2	21767.3	323.6

* Preliminary estimate.

Table 3. Imports of rolled products and tubes from Russia over 1997-1998

million tons

Countries and regions	1997					1998				
	Semis	Flat products	Long products	Total	Tubes	Semis	Flat products	Long products	Total	Tubes
North America		1.5	2.0	3.5	10.3		1.5	2.0	3.5	10.0
South America	-	-	0.2	0.2	21.4	-	-	0.2	0.2	20.3
Western Europe	1.1	120.6	47.1	168.8	128.5	22.1	100.6	50.3	173.0	108.5
Including the EU	1.0	119.4	45.4	165.8	118.9	22.0	100.0	50.0	172.0	100.2
Central and Eastern Europe	-	95.7	24.5	120.2	53.6	-	95.8	35.5	131.3	50.0
CIS	18.8	470.8	783.6	1273.2	840.1	47.8	415.3	806.4	1269.5	522.0
Asia and countries of Pacific region	-	17.2	23.1	40.3	31.3	-	17.3	23.2	40.5	30.1
Africa and the Middle East	-	0.1	0.2	0.3	-	-	0.1	0.2	0.3	-
Total:	19.9	705.9	880.7	1606.5	1085.2	69.9	630.6	917.8	1618.3	740.9

* Preliminary estimate.