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**WORKSHOP ON THE SITUATION IN THE STEEL INDUSTRY IN THE NIS**  
**SPECIFIC PROBLEMS HAMPERING STEEL INDUSTRY DEVELOPMENT**  
**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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## SPECIFIC PROBLEMS HAMPERING STEEL INDUSTRY DEVELOPMENT IN THE NIS

### Steel exports in a difficult world market

#### *Export strategy of Russian steel exporters*

Russia takes the first place in the world as a steel exporter. Export of rolled products from Russia increased from 8.0 mln. tons in 1992 up to 21.8 mln. tons in 1998, i.e. almost 3 times as much. However, a considerable part of this amount was semifinished products - 40%; portion of flat products was 37%; of long products - 23%. If taken as a basis, flat and long products portion in the total amount of steel in the global market over past years has slightly increased from 5.1% in 1992 to 5.3% in 1998. Over the same period a share of Japan, the worlds second ferrous metals exporter, has remained at the level of 8%. Therefore, the absolute growth in ferrous metals exports from Russia has been within the limits of growth in global steel trade and has not infringed other steel exporters' interests, having kept their priorities in the world steel market. There is a downward tendency in a proportion of iron and steel exported in the overall production: in 1997 - 71.4%, in 1998 - 63.9%, in 1999 (9 months) - 59.7%. This proportion is about the same in other large steel making countries. In particular, Russia, Japan and the EU, making together 88% of the world steel trade, have an average proportion of exported steel in total production equal to 50.3%. In the EU countries this proportion is 56.3%, including Great Britain - 51%, France - 73%. Thus, Russia has not broken the trade balance in the world steel market and the judgement of separate experts accusing Russia of a downfall in export prices in 1998 - is neither justified, nor logical and correct. Firstly, the volumes of rolled product exports from Russia decreased in 1998, as compared to 1997, by 5.2 mln tons (19.3%), which is the most substantial decrease in comparison with other countries. Secondly, prices on the Russian steel have been relatively stable over 1997-1998 and taking into account a low share of Russia in the world steel exports (only 5%) we can't say that prices on the Russian steel have considerably influenced the world steel prices. Thirdly, the exports of semifinished products decreased, which was 80% in the total decrease in steel exports and long products made up the remaining 20% in the total decrease. As a result an average Russian steel export price has increased approximately by 20%. Nevertheless, the downfall in prices was rather serious in IV quarter of 1998 and amounted to: on pig iron - by 44% (70 dollars per ton against 124 dollars in 1997); on steel scrap - by 52% (55 dollars per ton against 113 dollars in 1997); on semis - by 34% (130 dollars per ton against 195 dollars in 1997); on long products - by 27% (170 dollars per ton against 231 dollars in 1997); on sheet hire - by 36% (180 dollars per ton against 271 dollars in 1997). As a result in 1998 world prices on major steel products decreased, as compared to 1997, as follows: on pig iron - by 16%, on ferroalloys - by 7%, on steel scrap - by 10%, on semis - by 15%, on rolled steel product - by 12% on the average. In our opinion, this problem merits serious research and Russia is ready to participate in it by granting pertinent information on the balanced (parity) basis.

In 1998 there was a decrease in steel exports to countries of Southeast Asia (-3.2 mln. tons), to the USA (-0.9 mln. tons), to the EU (-0.5 mln. tons) - 4.6 mln. tons in total, which was almost 90% in total decrease in steel exports. The greatest decrease in the Russian exports of steel products was to countries of Southeast Asia, which amounted to 60% of the total exports.

It is of interest to give an objective interpretation of steel pricing factors in Russia prior to a ruble devaluation (before August 17, 1998) and after a ruble devaluation.

With this purpose we show calculations of the cost price on a hot-rolled sheet in Russia and the EU countries based on the enlarged cost elements (see Table 1a).

**Table 1a Cost composition of hot-rolled sheet in Russia and the EU**

(In export production), %

Countries	Raw materials	Fuel and energy	Wages and extras	Amortisation	Other	Total	Profit	Price
Russia	57.4	19.6	10.2	6.5	5.3	100.0	4.5	104.5
EU	44.5	15.3	25.2	10.0	5.0	100.0	12.5	112.5
+, - (%)	129.0	128.1	40.5	65.0	126.0		36.0	

As the above data show in the cost price structure of the hot-rolled steel in Russia the costs of raw materials, stuffs, fuel and energy are approximately 30% higher, than those in the EU countries, which is explained by an imperfection of equipment and technology. But the wage costs and amortisation are much lower. Wages in ferrous metallurgy of Russia are approximately 20 times lower, than it is in countries of the EU. The ratio is almost the same with amortisation, which is accounted for by an imperfection of a funds evaluation method and by a large level of their depreciation (more than 70%). Though after the privatisation in Russia three revaluations were made, they were rather relative and did not reflect the world ratio. In particular, funds of JSC "Lipetsk iron and steel works" and those of «Bettlehem» in the USA are about identical, but their value in Russia is 8 times lower, than in the USA. Therefore, it is very difficult to receive an investment credit in a European business bank, the World Bank, the European Bank for Reconstruction and Development or other first-class investment organisations. In accordance with the existing estimation of funds in Russia, in order to renovate some machines and equipment a company should get investments which are dozens of times higher then the amount of the Authorised capital of this company. This is the reason why the Authorised capital of the Russian joint-stock companies does not meet mortgage requirements and, therefore the warranty of the Federal government or local authorities is needed, for which there are practically no funds in the budgets.

Under the category "other" Russia has higher costs (by 26%), which is attributed to the higher taxes and costs of credit resources. Before a devaluation of ruble profitability of the Russian iron and steel exporters was approximately 3 times lower, which is explained by payments for traders services and for circulating capital by way of credits obtained by traders from foreign banks (Russian iron and steel companies do not practically have their own circulating capital, and in domestic banks the rates on them are very high, three-fold and even more higher than the foreign ones).

Thus, low wage costs and low amortisation level are the major factors which resulted in the lower costs of production in ferrous metallurgy of Russia, and consequently, lower prices in the world markets. But these factors do not remain constants, they change with time. In particular, with realisation of technical re-structuring, application of modern engineering and technology the consumption of materials, fuel and energy will be lower, the wages will increase, and the funds will be reevaluated at a level of western developed market economy countries. In these circumstances, on the completion of all stages of

modernisation and reequipment of ferrous metallurgy in Russia the cost structure of metal products will improve considerably.

The factor of ruble devaluation remains difficult to be predicted. After August 17, 1998 the situation with the price structure changed sharply. For the same currency price the ruble cover became 4 times as much, than that before the devaluation. Thus, the costs in the domestic market increased only twofold. However, in the course of the year by August, 1999 they have increased threefold. Taking into account the fall in iron and steel world prices in IV quarter of 1998 and their small growth in 1999, the profitability of this industry in Russia has compounded about 25% by IV quarter of 1999, which is almost two times higher than that in the Western developed market economy countries. Thus, in 1999 artificial export incentives appeared in Russia, but they are temporary and will fade away by the end of 1999. Besides, due to this increased profitability the Government imposed export duties at a rate of 5% from the export price.

Role of metal traders in Russia is as follows. They provide circulating assets to the Russian companies at the rates of Western banks. We suggest it to be more reasonable and effective, if Western banks gave credits on circulated assets directly to the Russian producers and exporters of ferrous metals. Then, as a guarantee, Russian iron and steel exporters could undertake obligations on a rise in prices within reasonable limits in the world markets (minus the discounts for quality, irregularity of deliveries, length of haul etc.).

The barter trade in ferrous metals takes place only in the home market and does not influence export pricing. With a devaluation of ruble (after August 17, 1998) the barter trade in Russia decreased sharply from 75% to 5-8% and is used basically in counter trade for power resources (gas, coal, electric power).

Russia regards antidumping processes negatively, especially in terms of methods of antidumping duties calculation. In 1998 antidumping investigations against Russian exporters of ferrous metals were originated by such countries as the USA, Mexico, India, Turkey, China, Indonesia, Canada, Argentina, Brazil, Philippines, Columbia, Thailand, Taiwan, RSA and Venezuela. The general condition under which an antidumping investigation can be initiated is economic damage to national producers. However, this assertion by complainants is not always correct. Often in order to prove dumping complainants do not use the actual information in their own market and the price information on actual sales of the Russian metal, but the information of surrogate countries. As a consequence the imposed antidumping duties are more than twofold overstated, though the prices on Russian metal products in the market of a given country are only 10-20% lower than the average market price. It resulted in the exclusion of Russian exporters from the actual market participants in those countries and in total losses of about 1.4 mln. US dollars. Thus, in practice there is no free steel market, which was so much spoken about by Western countries on international conferences at the beginning of transition of Russia to the market economy. Actually world steel market turned to have been over-regulated by the national legislation of many countries in the field of antidumping legislation, often characterised as discriminatory. Even the information provided by domestic metal producers of Russia, is not used by «complainants» while laying antidumping duties. Then, what is it requested for, as you see 10 days of 14, given under antidumping law procedures, are spent on answering and translating of this information. It is the most serious problem in trade, and it is necessary to tackle it in a civilised way, i.e. we request to use the Russian information in antidumping investigations, instead of information of «surrogate» countries.

The introduction of quotas does not solve the given problem, as there are still legal possibilities to start antidumping investigations under certain conditions. Quotas on certain kinds of steel products are agreed upon between Russia and the EU and between Russia and the USA. Their volumes are rather discriminatory (about 10% of total exports). Therefore the existing international instruments do not

adequately cope with steel trade problems. In our opinion, there is the actual necessity and it is high time to conclude multilateral agreement on world steel trade without quotas and licenses, but with the possibility to use them in case of a breach of conditions expressly stipulated by the given agreement.

The ferrous metallurgy of Russia meets basic requirements to be treated as market oriented (according to analytical report of experts of the TACIS program in August, 1999). Certain amendments in legislation of Russia to make it equal to that in the EU in a part of a competition, government aid and the environmental protection, are taken into account in «Action Plan», to be implemented during 1999-2000.