

## Metinvest: We will have to fight for free galvanised steel market volumes

Roman Kurashev, director of marketing at Metinvest Holding



Beginning at the end of July, Ukraine is introducing five-year antidumping duties on galvanised steel imported from China and Russia. Roman Kurashev, director of marketing at Metinvest Holding, believes that the protective measures will not only increase production from existing equipment, but will improve the economic attractiveness of expanding the product mix and production capacity in the segment. For example, in the coming two years, Metinvest already plans to begin engineering and contracting for the supply of equipment to produce galvanised and coated steel products.

**– Mr Kurashev, what are the company’s expectations regarding the demand and consumption of coated steel products in Ukraine this year?**

– We see that industrial production and the construction industry, which make up at least 60% of consumption, are growing. Despite the political changes associated with the presidential and parliamentary elections, non-residential and infrastructure construction are expanding. Meanwhile, there has been a slight decline in the residential sector due to the previous very high growth rates. A large volume of work has been performed in recent years. At the end of 2019, we expect growth in the apparent consumption of rolled products in Ukraine of 1-2%.

In the galvanised steel segment, consumption volumes will likely remain close to last year’s result of roughly 310,000-315,000 tonnes. There may be a slight reduction, as has been seen in past election years. A more pronounced reduction in apparent consumption of colour-coated steel products is possible due to a high-base effect, since a lot of products were imported in late 2018 but not sold until the first quarter of 2019. Meanwhile, in July-August, a new production line with an annual capacity of 60,000 tonnes of colour-coated steel products has been launched in Mykolaiv region. The supply of domestically made colour-coated steel should improve when its products begin to be sold: Module Ukraine’s products are not enough and a large part of the volume comes from imports, mainly from China. We hope that with the launch of this line, we will establish long-term cooperation in the supply of galvanised steel.

**– How will the duties imposed in late July on products from Russia and China impact the Ukrainian galvanised steel market?**

– The fact that the Ministry of Economic Development and Trade and the Interdepartmental Commission have approved and introduced the duties confirms the arguments of Ilyich Steel: these exporters have been practising dumping on the Ukrainian market. The introduction of duties will lead to an increase in the capacity load of local producers and in the supply of their products to the domestic market. In 2018, more than 40,000 tonnes of galvanised steel were imported from China.

I think that 50-60% of that volume will be replaced by domestic producers: Ilyich Steel, Module Ukraine, Unisteel and Great Silk Road Company. Another part will go to alternative exporters. This could be Turkey or European countries.

**– Since the beginning of the year, imports of galvanised steel to Ukraine have grown. When will the market and domestic producers feel the effect of the duties?**

– I do not believe that there is a large surplus of galvanised steel on the market. The market is currently influenced more by the aggressive policies of Turkish exporters. They are experiencing problems selling on European markets due to the trade disputes and the significant slowdown in growth on the automotive manufacturing market. Turkish suppliers are actively seeking sales destinations, lowering prices or transferring volumes to the construction segment. In this regard, we had to reduce prices for galvanised steel in July despite the approved antidumping duties.

We hope that this is a temporary phenomenon and that by the end of the third quarter, prices will gradually grow amid another truce in the trade disputes, as well as rising prices for iron ore raw materials and various other factors.

There will not likely be a significant increase in prices on the domestic market. The Ukrainian market is quite competitive and there are a lot of alternative suppliers. We expect margins to stabilise somewhat, because the material that is being dumped and undermining the economy will go away. However, we will still have to fight for the free volumes.

**– A significant volume of the galvanised steel imported from China consisted of products with a thickness of less than 0.3 mm. Will domestic players and Metinvest, in particular, be able to offer an alternative to the market?**

– Metinvest's companies can fully satisfy the demands of Ukrainian customers for galvanised products with a thickness of less than 0.3 mm. However, when there were Chinese products on the market at dumping prices, it made no economic sense to make products of a similar thickness. When we understand the share that we can take in the segment, we will have more opportunities for substitution.

**– What new opportunities are you talking about?**

– First, we are launching a modernised 1700 hot strip mill at Ilyich Steel, which will make it possible to use hot-rolled steel with a thickness of 1.5 mm instead of 1.8 mm to make thin cold-rolled steel. This will allow us to expand our product mix in cold-rolled steel and increase the volume for subsequent galvanising.

Second, we plan to modernise the cold-rolling shop at Ilyich Steel. We are still at the conceptual stage, considering several options. Another area is selecting new galvanising and colour-coating equipment for Ilyich Steel.

We see serious potential for growth of volumes on the domestic coated steel market. Today, per capita consumption of coated steel products in Ukraine lags markedly behind the nearest peer countries: Russia and Poland. The current needs of the Ukrainian market – more than 300,000 tonnes of colour-coated steel – are mainly met by imports. Module Ukraine produces around 20,000-25,000 tonnes a year. The new line at Heavy Metal Company (Pervomaysk, Mykolaiv region) will add another 60,000 tonnes. So even with the current demand, the market will require additional galvanising and colour-coating capacity.

**– When will the new projects be implemented?**

– I think that we will begin the engineering and contracting phase within the next two years.

**– Information recently appeared in the media about the possible construction of a continuous hot-dip galvanising unit at Zaporizhstal, how accurate is this?**

– We are working on a project to potentially install not only a continuous hot-dip galvanising unit, but also a colour-coating line at Zaporizhstal. The project is currently under consideration: first all the company's shareholders must agree to its implementation.

**– What opportunities do you see in cooperating with Ukrainian coated product manufacturers?**

– Unisteel is now operating as a subsidiary and our plants supply all its cold-rolled steel. The company has reached a stable monthly production volume of around 7,000 tonnes. We expect annual production growth of 20-30% this year [57,300 tonnes in 2018 – editor's note]. In addition, at Unisteel, we continue to explore the capabilities of the production line, expand the product mix and improve product quality.

We have stopped selling Module Ukraine's colour-coated steel on a give-and-take basis, because its share in total

volumes did not bring a great economic effect but required management attention. Meanwhile, we continue long-term cooperation and deliver cold-rolled steel to the company. We believe that since Module Ukraine can more quickly serve small consumers of colour-coated steel products on their own, it is better to leave sales under their management.

As for the new player on the Ukrainian industry, Heavy Metal Company, we see them as potential partners. So far, their line most likely will be launched using Turkish semi-finished products, but by the time it reaches its planned production figures, we will be able to adapt our products to the parameters they need.

**– Continuing on the topic of antidumping investigations, how critical could the loss of the Russian market be as protective measures are introduced against galvanised steel from Ukraine and China? Where can you send the excess volumes?**

– It is difficult to comment on anything while the decision has yet to be taken and the investigation is ongoing. We started looking for alternative sales destinations a year ago. The quality of our galvanised steel at both Ilyich Steel and Unisteel fully complies with European standards. Unisteel also makes steel using a passivator with trivalent rather than hexavalent chrome, which also complies with EU environmental requirements, and the metal is in demand on the market.

We are developing sales of galvanised steel in such European countries as Poland, Bulgaria and Greece. Israel is also among potential customers. We deliver steel to Italy and the UK. They have very strict requirements there: to fully comply with them, we are still developing certain characteristics of our product.

**– Mr Kurashev, considering the company's plans to develop coated steel production, how do you intend to meet the increased need for semi-finished products?**

– Since 2017, we have been implementing an updated technological strategy with a product focus on steel in coils. One of its priorities is production capacity expansion, including by modernising the main operating units.

In 2018, we launched the new two-strand slab continuous casting machine no. 4 at Ilyich Steel. Investments totalled around US\$150 million. The aim of the project was to provide quality semi-finished products for the 1700 hot strip mill, the modernisation of which is slated for the third quarter of this year.

**– What is planned as part of the 1700 hot strip mill reconstruction and what effect do you expect to achieve?**

–The 1700 hot strip mill reconstruction will take place in several stages. As part of the first stage, heating furnace no. 1 and a new pneumatic coiler were launched, which have already made it possible to increase the weight of hot-rolled coil to 16.5 tonnes and begin producing hot-rolled seamless pickled coil with a weight of up to 15 tonnes, as well as

[cold rolled coil](#)

with a weight of 14.0-14.5 tonnes.

The second stage envisages installing a new reversing roughing stand, two water descaling units and a coilbox, as well as modernising three finishing stands. In addition, the installation of a second hydraulic coiler is being completed and the mill is being equipped with level 2 automation.

After the reconstruction, we will have a practically new mill. The quality of our coils will meet the highest global requirements. This applies both to the weight of the coil, which we will increase to 27 tonnes per customer requirements, and to thickness and sheet geometry tolerances.

We are expanding the size and grade mix: while we currently produce hot-rolled steel to European standards with a thickness of 1.8 mm, after the modernisation the minimum will be 1.2 mm. Reducing the thickness of hot-rolled steel is quite important, both to producers of structural hollow sections and to export customers for further cold re-rolling.

Most importantly, by 2022, we aim to achieve annual hot-rolled steel production volumes of around 2.5 million tonnes. The mill can currently produce around 1.3 million tonnes.

**– What breakdown of hot-rolled product volumes do you expect after the second stage of the 1700 hot strip mill's modernisation?**

– Of the targeted 2.5 million tonnes of hot-rolled steel, we plan to send around 800,000 tonnes to the cold-rolling mill for further galvanisation. Another 170,000 tonnes or so will be used for in-house seamed pipe production. The targeted volume for the free market, primarily exports, will be around 1.5 million tonnes of high-quality, heavy hot-rolled coil.

– According to Metall Expert’s data, the annual rated capacity of the 1700 hot strip mill is 3.6 million tonnes of hot-rolled steel. Do you plan to achieve these production figures?

– The 3.6 million tonnes figure is the mill’s nominal capacity. It will be achievable after the installation of the additional heating furnace and hydraulic coiler. The decision regarding this phase has yet to be taken.

– Will the market and Ilyich Steel experience a shortage of hot-rolled steel supplies during the second phase of the 1700 hot strip mill’s reconstruction?

– We plan to stockpile for our own cold-rolled and galvanised steel needs, but there will be no commercial production of hot-rolled coil. On the other hand, production at Zaporizhstal is working as usual, we will fill some orders using its products.

– This year, you plan to master 36 new types of products, does this new work correlate with the 1700 hot strip mill’s modernisation?

– The 36 products are planned work to develop new grades, thicknesses and widths that has been ongoing since the start of the year throughout the production assets of the company and joint ventures. After the updated mill’s launch, a schedule will be drawn up for work on new hot-rolled and cold-rolled products that we can master.

– Tell us about the new products for this year.

– We are focused on galvanised steel. At Unisteel, we have mastered a thickness of 2 mm and can produce such steel without limitation.

We have also begun shipping pilot batches of the S350GD steel grade in thicknesses greater than 1.6 mm, including with a galvanised coating of 275 grams. This product is intended for the light-gauge steel framing segment and, so far, a rather large volume of it is being supplied from Europe, Turkey and partly Russia. For us, this is a key import-substitution programme to which we are currently devoting much effort and resources.