

## "The metallurgical industry will only recover after the ports are unblocked" — Commercial Director of Metinvest Group in a column for Forbes

Metinvest Group believes that the opening of ports, not only for grain but also for steel exports, could bring Ukraine up to US\$600mn in foreign currency proceeds every month.



Dmytro Nikolayenko, Metinvest's Commercial Director, talked to Forbes about the Ukrainian mining and metals industry and the potential for recovering its export capacity.

At the end of 2022, 100,000 bracelets made from the last batch of steel produced by Mariupol steelmaker Azovstal were shipped from Ukraine to customers in 44 countries.

However, before the full-scale Russian invasion, the geography of Azovstal's exports was even wider: its products were supplied to 90 countries.

To date, both of Metinvest Group's enterprises in Mariupol— Azovstal and Ilyich Steel — which accounted for around 40% of Ukrainian steel production, have been destroyed and, due to the occupation of the city by the aggressor, withdrawn from the Ukrainian economy.

The loss of control over these leading enterprises is not the only source of lost output, as the plants are also operating at less than one third of total capacity on Ukrainian-controlled territory. In particular, in December 2022, the Kamet Steel and Zaporizhstal mills were operating at 25% and 33% of their pre-war levels respectively.

In fact, companies in the sector are now operating at the very edge of profitability in order to maintain capacity and jobs.

One of the main reasons for this drop in production can be found in issues with sales due to blocked seaborne exports. Before the full-scale war, steelmakers were shipping 80% of Ukraine's steel to foreign countries. Some 70% of Ukraine's steel products used to be exported through seaports, but with the outbreak of full-scale war they remain blocked to most exporters, except those from the agricultural sector.

Of course, steelmakers are looking for alternative ways to ship their products abroad and use railway and river port capacity. However, due to a significant increase in railroad tariffs (up to 140% for ore, coal and coke, and up to 70% for ferrous metals) and additional costs for the delivery of products to EU ports, the cost of logistics has grown by four to six-fold.

As a result, in 2022, Ukraine's revenues from the exports of ferrous metals decreased 67.5% compared to 2021, to \$4.533 billion. However, under current conditions, even this result is a great achievement. It is worth noting that the mining and metals industry is one of the leading sectors of the economy.

On the eve of the war, in 2021, the mining and metals sector accounted for 33% of Ukraine's total exports, worth US\$22 billion, with the industry accounting for 10% of GDP. Accordingly, the drop in the metallurgical production and exports is leading to a significant loss, with the country's GDP in 2022 falling by almost a third.

However, the good news is that the metallurgical industry has the potential to recover quickly if, in addition to the existing grain export corridor, it succeeds in opening the ports for the export of mining and metals goods. This will strengthen the economic power of the state, as it will generate around US\$600 million in export revenues per month and save hundreds of thousands of jobs.

Therefore, Metinvest Group, on behalf of the entire industry, calls on the authorities, diplomats and international partners of Ukraine to make every effort to open the sea to Ukrainian steel, which to the world has already become a symbol of Ukrainian resilience and the country's unbreakable spirit.

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