

Polish infrastructure is too constrained for Ukrainian business — WNP

In an interview with the Polish business portal WNP.PL, Dmytro Nikolayenko, Metinvest Group's Chief Commercial Officer, spoke for the first time about the specifics of sending exports through Poland and the opportunities and constraints in logistics facing the Group.



— What was Metinvest like before the war?

— Metinvest is an international mining and metals group. We have production facilities not only in Ukraine, but also in Bulgaria, Italy, the UK, and the US. We also have an extensive sales and distribution network — we sell products in 95 countries. In addition, Metinvest has 20 offices worldwide, so our business certainly has an international dimension.

The war has affected the company's logistics. Things have gotten more complicated

Ukraine's mining and metals industry used to be export oriented. Ukraine exported 80% of the steel products and iron ore raw materials produced in the country. All the logistics routes, including railways and ports, could cope with this.

We exported products mainly through the Black Sea ports, such as Pivdennyi, which is able to receive the largest Capesize merchant vessels, and through the ports of Odesa and Mykolaiv. We shipped goods all over the world from Mariupol's Azovstal and Ilyich Steel plants. The shipping route from Mariupol to Italy, where our goods were shipped to re-rolling mills, deserves particular attention. Container ships regularly delivered slabs (semi-finished steel products) to Italy and the UK. We also shipped products from the Ukrainian rolling mills to our plant in Bulgaria. They were transported on the Dnipro and then through the Black Sea to the Bulgarian port of Burgas.

Our logistics component was very well organised and we provided customers with good service in terms of the predictability of delivery times. Vessels were leased under various forms of charter, such as bareboat (the vessel is provided unmanned) and time charter (manned vessel).

— How has the war changed the fundamentals of your international activities? Can new routes through Poland and Romania compensate for the loss of maritime routes?

— The full-scale war has directly affected the Group and its vertical integration (i.e., the control and management of production, distribution, sales and other processes within one company — editor's note). We were forced to stop production in Mariupol, and then lost operational control over the Mariupol enterprises.

Because of the blockade of the Black and Azov Seas, we began to look for new modes of transport for our exports. When it comes to iron ore products (pellets), there was not enough capacity on Ukrainian government-controlled territories for their transshipment. Our task was to find alternative logistics routes for the supply of our

products.

Currently, there are two routes. The first one is to the northern ports of Poland, and the second is to the southern ports of Romania. One can also use Croatian ports, but their capacity is much lower than that of Ukrainian ports, and all the logistical issues become much more complicated.

In Ukraine, we have broad-gauge railways, and in Europe – narrow-gauge. This affects not only the shipment, but also the storage of products. Moreover, when cargoes such as pellets or iron ore concentrate are shipped by clamshell cranes, certain impurities can get into the products, and cleaning is an expensive process. We lost more than US\$19 million in 2022 alone because of this..

Poland is not ready for the re-export of large quantities of goods from Ukraine

The route through Poland entails serious logistical difficulties for us. Last winter, warehouses in Polish ports were filled with coal, and it was impossible to load our products.

There are issues with the speed of movement of goods, which is half of what we are used to in Ukraine. We also have to deal with overly complicated customs procedures that take extra time.

Despite this, Metinvest has become an important partner of Polish ports and railways. The volume of products shipped on Polish railway routes increased by 45% compared to 2021. Thanks to our ore, Polish ports achieved a more than 100% increase in the exports of iron ore and metal products in 2022.

However, Poland could have received the 70 million tonnes of exports per year that Ukrainian ports have lost because of the war, so the overall figures are disappointing. The total volume of exports through Polish ports has not increased, and even decreased by 1%, because of unprepared infrastructure: there is not enough capacity to handle goods both at the border and in ports, and the infrastructure itself is designed for imports rather than exports.

— What issues do you face with the employees of your enterprises?

— Around 8,000 of our employees have joined the ranks of the Armed Forces of Ukraine, and they are having a hard time. We have managed to retain some of our workforce, but we are still significantly short-staffed, and this is a difficult situation for us.

Since the beginning of the full-scale war, Metinvest has provided around UAH 4 billion in assistance to Ukraine. We have been providing humanitarian assistance to our armed forces, including through financial contributions, donations of military equipment and funding for the rehabilitation of the wounded. We operate both directly and through our Saving Lives humanitarian project, which has already helped more than half a million Ukrainians affected by the war.

— How have your business plans changed since Russia's invasion of Ukraine?

— Our long-term business plan was to produce green steel — using magnetite iron ore deposits to produce pellets, and then process them using the DRI (direct reduction of iron) method and making green steel. We still intend to do this.

Metinvest adapts to the new reality and has not given up on its plans

We still plan to modernise our iron and steel facilities to make them more environmentally friendly. After the liberation of Ukraine's occupied territories, we will investigate the condition of the Mariupol plants to determine what damage has been done and what we can do there. Then we will get on with the modernisation project to launch green steel production there.

It is quite difficult to talk about the short-term and medium-term development strategy. Our plants in Mariupol accounted for more than 60% of the Group's steel output. We are now focused on developing the assets under our control. We are facing certain issues in terms of logistics and transportation of products, as well as difficulties in leasing a larger fleet of vessels to transport iron ore.

— What is the financial condition of the company?

— We are facing many challenges. However, we are able to support the remaining part of our business, including the European assets, such as the rolling business.

We are adapting the business to the new reality, and this is reflected in our financial statements. In one night, we lost the source of raw materials, namely slabs, so we had to buy them on the open market to conduct business efficiently. We are managing to keep it at a level close to full capacity. As for rolled coils, the situation is more complicated.

