

Yuriy Ryzhenkov: «Russia is still selling steel to the EU. Hopefully sanctions' loopholes will be closed»

The CEO of Metinvest Group Yuriy Ryzhenkov gave an interview to the leading Italian newspaper Corriere della Sera on key issues of the company's functioning during the war, sanctions against the aggressor, as well as the restoration of the Ukrainian economy after the end of the conflict.



- How much diminished is your productive industrial capacity as a result of war after these first ten months? Can you still keep producing despite everything that's going on in Ukraine?

- Metinvest was impacted quite significantly by the war. We are facing disruption of our operations in Ukraine, mainly because of the destruction of infrastructure in the city of Mariupol earlier this year. We lost operational control of two steel mills, Azovstal and MMKI, that together produced about 8.6 million tonnes of crude steel in 2021. They have been idle since then and presumably have been either partially damaged or destroyed. That affected also our UK and Italian operations, which were relying on semi-finished products produced by MMKI.

- What has been the effect of the port blockade?

- The Ukrainian sea ports were the key gate for our exports. Now the Group cannot use the seaborne route to ship our products, for example, in South East Asia or Middle East markets. But we have managed not only to keep production going at all of our remaining assets under our control, but we also have begun to support quite a lot the Armed Forces of Ukraine. As part of the Rinat Akhmetov's Steel Front initiative, we have provided the army with bulletproof vests, drones, helmets, cars and other military equipment.

- How much of the Ukrainian economy is still functioning?

- The official figures point to more than 40% contraction of the Ukrainian economy. I suspect it's even more than that. In September 2022, the World Bank estimated recovery and reconstruction needs of Ukraine of more than 350 billion U.S. dollars.

- Are financial and technical means there to fix the energy system in Ukraine? Is the repair work possible at all?

- The energy system is still operational, despite significant Russian attacks. We had blackouts last month and we do have limitations, but the electricity supply is there and our facilities are still producing.

- How much of your Group's steel production has been stolen by the violent takeover of your Mariupol plants? Have you sued the Russian Federation over theft?

- We had more than 230,000 tons of steel products ready to be shipped and those were stolen by the Russians.

Obviously, we're monitoring and documenting all of those cases. This constitutes part of our legal case against the Russian Federation, after we filed our case in the European Court of Human Rights for the seizure and devastation of our plants and the steel theft. We will sue them to the last penny for the damage that they've done to our company.

- But in the meantime Russia takes over global market share from Metinvest...

- Now, in terms of the market share, their situation is a bit tricky. There is an eight package of sanctions which was introduced by the E.U. against Russia in October, which includes steel products for supply into the E.U. But unfortunately, there is a loophole there which gives a two-year grace period to many of the Russian producers for the imports of Russian semi-finished products into the European Union.

- What do you mean?

- European importers of those semi-finished products, that they buy at heavily discounted prices, have an advantage over other producers in the European Union who refuse to buy from the Russians. So the latter are at a disadvantage, including Metinvest plants in Italy and in the U.K. That's an unfortunate situation which we're in. Russia unfairly takes over market shares from more prudent producers like Metinvest and other European producers who refuse to buy from the Russians, who refuse to sponsor the Russian economy. Hopefully this sanctions' loophole will be closed in the next two packages.

- Can we exclude that we in Europe are buying steel that was stolen from Mariupol?

- We cannot completely exclude that. But each steel product comes with a certificate of origin, which shows where it comes from.

- So how can you buy something that potentially was stolen in Mariupol and brought to Europe?

- Theoretically, you can. People could have fake documents. But yes it's possible. It's not the first time Russia steals industrial goods from Ukraine, it already happened in 2014, 2015, and 2016. They were stealing from our other plants in the Donbas region, for example.

- Which EU countries are still importing steel from Russia?

- The imports into the EU are still open for many countries. The biggest importers of Russian steel are traditionally companies in Belgium and Italy. I would imagine they would remain traditional importers. In Belgium they have a Russian subsidiary, a Russian steel maker. I would be surprised if they were not using this loophole to import their semi-finished goods.

- Are you asking for the European Union to tighten up sanctions on Russian steel, because this is actually flouted even by Italians or Belgians?

- Exactly. By leaving this loophole, you are basically putting conscientious European producers, who don't want to sponsor the aggression, at a disadvantage. The EU is putting their own players who want to support Ukraine at a disadvantage. So we think it would be best if this loophole is closed.

- Is the EU also putting Metinvest at a disadvantage vis-à-vis your Russian competitors?

- That's absolutely correct. Yes.

- What do you think about the way Europe is managing the sanctions on oil and coal?

- Obviously we would prefer energy sanctions to be more global and stricter. But we understand that there are features in certain European countries which prevent them from being stricter. For example, most of the refineries in Czech Republic are designed to use Russian oil to produce gasoline. You cannot rebuild them in a day.

- Are such embargoes going to have an effect on the Russian economy and the Kremlin's stance?

- I'm pretty sure about it. Otherwise, why would the Russians resist those embargoes so fiercely? If you look at the diplomatic efforts and the commercial resistance that Russia put in place to stop the embargoes, you get the sense it's very important to them. I think the effect on their economy is proving very serious. The sanctions can take time but in the end they will be felt and will change the attitude of the Russian leadership.

- How many of your employees went to the army and how many have died or have been injured?

- Well, as of today, over 7,000 employees of Metinvest Group have been called to due to the Ukrainian army, which is well above 10% of our labour force, not counting those who remained in occupied Mariupol. We are in constant contact with our mobilized employees, and we try to equip them with protective clothing - bulletproof

vests, helmets and so on. Unfortunately, more than 320 Metinvest employees have been killed in this war - not only military personnel, but also civilians killed when they were bombed by the Russians.

- How do you assess President Zelensky's leadership and management in the war?

- None would argue that the president is demonstrating exceptional leadership and he is managing this phase of the war with maximum dignity and transparency. And the support that we got from all over the world thanks to his actions really helps Ukraine.

- Do you think President Zelensky should be more open to negotiations?

- We already negotiated before. We already had the Minsk agreements in 2014 and 2015. We really tried to talk to Russia again in 2019. It all led to Russia's building up more forces and becoming stronger than before. So at this point in time, with Western support, with weapons being supplied to Ukraine and with the morale that we have in our armed forces, I don't think it's the right time to negotiate.

- So when will the right time be?

- We're always ready for negotiations, but Ukraine needs to return all of the territories that were taken over by Russia since 2014. That will be a good point to start negotiations. Otherwise, it's a frozen conflict which only gives Russia time to heal their wounds and start again.

Four months ago, nobody believed that the Kharkiv region could be liberated. Three months ago very few people believed that Kherson could be liberated. But they have been. Too many analysts underestimate the Ukrainian army's capabilities. If the supply of weapons continues from our Western allies, Ukraine has all the resources and all the necessary skills to retake all of its territories, including Crimea.

- Are you happy with the amount of financial and military help that Ukraine has received from Europe?

- We are very grateful to the allies for all the support from the European and from the United States, Canada, Australia and other countries. The support for Ukraine has been unprecedented, but we worry that the help may not be enough or can slow down. And at the same time, we understand that this is our country, it's our job to defend it.

- What is the amount of concern in Ukraine that Europe and the world in general get tired of the war and slow down the support?

- That's exactly what Putin would have wanted – the Western world to get tired and slow down the pace of support. Instead, most of the world leaders now understand that if they slow down the support, that will only prolong the war and increase the suffering, rather than lead to the end of the war.

- What are your expectations from the Paris conference on Ukraine? More generally, what can Europe do to help Ukraine overcome all the damage that has been brought by the war?

- Ukraine is already a candidate for EU membership, which means Ukraine is to become an integral part of the EU in many respects, including supply chains like, for example, in the steel and mining industry or in the food supply chain. So I think the European Union should be looking at the rebuilding of Ukraine like it's the reconstruction of part of its own territory. It should be something similar to the Marshall Plan after the Second World War - we're looking for a very similar approach to Ukraine.

- What could be the contribution of Ukraine to the EU?

- The steel industry in Ukraine can be turned into green steel reasonably fast. The European Union is still quite a big steel importer and Ukraine can fill this gap with green, carbon-free steel. But we can also contribute to energy, food supply and more.

- What about the future of Metinvest? Could it consider a merger with a big European steelmaker?

- At the moment, investors are more focused on getting through this war.