

International Political Economy of Ukrainian Steel Industry

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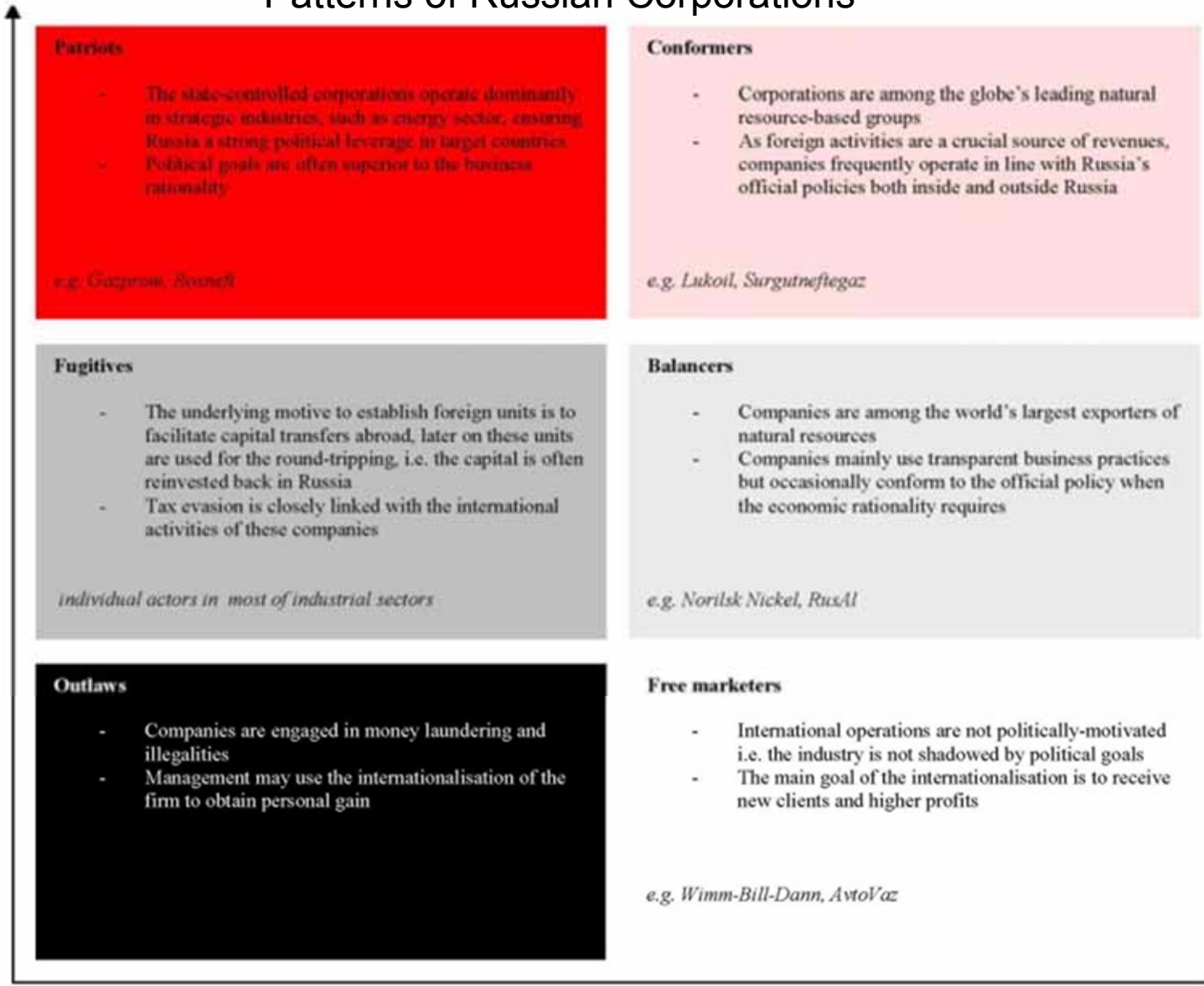


The objective of the study

- In this study I will survey the case of Ukrainian steel industry and Russia's involvements there in an effort to find implications from international political economy viewpoint.

Level of conformity
to Russia's foreign
policy

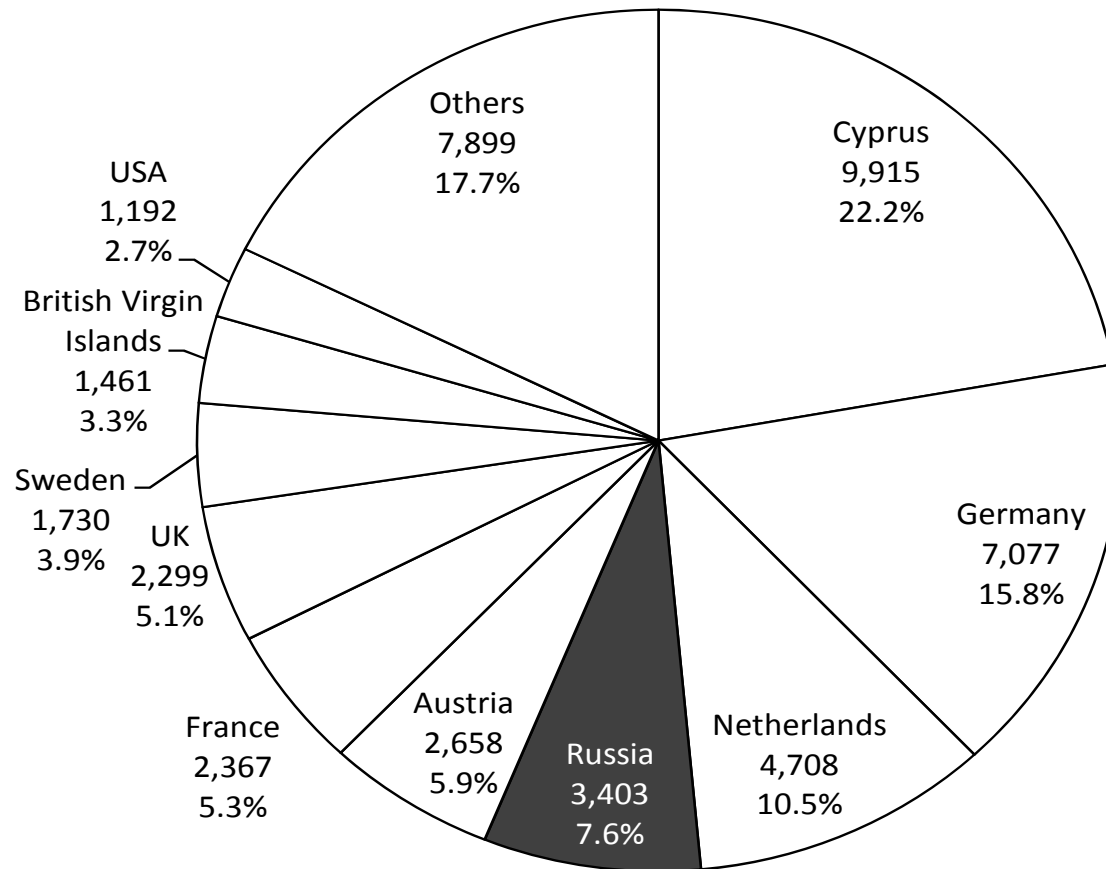
P.Vahtra (et.al.)'s clasification of Internationalisation Patterns of Russian Corporations



Source: Peeter Vahtra, Kari Liuhto, "Expansion or Exodus? —Foreign Operations of Russia's Largest Corporations," Electronic Publications of Pan-European Institute 8/2004.

Transparency
of operations

Ukraine's accumulated FDI by Investing Countries (as of the beginning of 2011, million US dollars)



Official Statistics are misleading (1)

- As of the beginning of 2011, Russia accounts for mere 7.6% of Ukraine's accumulated foreign direct investments (FDI), ranking only at 4th position . That does not mean, however, that the role in Ukraine economy played by Russian investors is small. To the contrary, presence of Russian capital is more than significant.
- We must pay attention to the fact that Russian big companies tend to invest abroad, including in Ukraine, through tax havens like Cyprus or British Virgin Islands, rather than directly from the mother nation.

Official Statistics are misleading (2)

- Many experts agree that, with investments via these tax havens counted, the overall picture would be rather different. Then Russia would be the biggest investor-country for Ukraine and Ukraine the biggest destination-economy for Russia's outward FDI.

→ Official Statistics are misleading.

That is why case studies are important.

MAJOR STEEL-PRODUCING COUNTRIES 2009 AND 2010

million metric tons crude steel production

Country	2009		2010	
	Rank	Tonnage	Rank	Tonnage
China	1	573.6	1	626.7
Japan	2	87.5	2	109.6
United States	5	58.2	3	80.5
India	3	63.5	4	68.3
Russia	4	60.0	5	66.9
South Korea	6	48.6	6	58.4
Germany	7	32.7	7	43.8
Ukraine	8	29.9	8	33.4
Brazil	9	26.5	9	32.9
Turkey	10	25.3	10	29.1

MAJOR IMPORTERS AND EXPORTERS OF STEEL 2009

million metric tons

Rank	Total Exports	mmt
1	Japan	33.3
2	European Union (27) ⁽¹⁾	31.6
3	Russia	27.6
4	Ukraine	24.0
5	China	24.0
6	Germany ⁽²⁾	20.8
7	South Korea	20.2
8	Turkey	17.4
9	Belgium-Luxembourg ⁽²⁾	15.4
10	Italy ⁽²⁾	12.7
11	France ⁽²⁾	12.0
12	Taiwan, China	10.0
13	United States	9.2
14	Brazil	8.6
15	Spain ⁽²⁾	8.2
16	Netherlands ⁽²⁾	7.7
17	United Kingdom ⁽²⁾	6.3
18	India	5.6
19	Austria ⁽²⁾	5.4
20	Canada	4.9

Rank	Total Imports	mmt
1	China	22.4
2	European Union (27) ⁽¹⁾	20.8
3	South Korea	20.3
4	Germany ⁽²⁾	17.7
5	United States	15.3
6	Italy ⁽²⁾	12.6
7	France ⁽²⁾	11.4
8	Belgium-Luxembourg ⁽²⁾	10.8
9	Turkey	10.2
10	Viet Nam	9.1
11	Thailand	9.0
12	India	8.3
13	Iran	8.0
14	Spain ⁽²⁾	7.0
15	Taiwan, China	6.5
16	Netherlands ⁽²⁾	6.3
17	Canada	6.2
18	United Arab Emirates	5.8
19	Indonesia	5.7
20	Egypt	5.5

Ukrainian Steel Industry (1)

- On one hand, steel industry is by far the most important industrial sector for Ukraine. As of 2010, Ukraine was the eighth largest steel producer and third largest steel exporter of the world. Iron steel and products accounted for as much as 32% of Ukraine's merchandise export in 2010.

Ukrainian Steel Industry (2)

- On the other hand, Ukraine's ferrous metallurgy is faced with a lot of problems. Ukrainian mills badly need investments for modernization, because from technological point of view they are over aged, obsolete and with low energy efficiency. Their products are primitive and with very low added value. They are too much dependent on overseas markets, especially spot ones, which leads to high vulnerability to fluctuation of international commodity prices. Some corporations lack their own raw material basis and depend on supply of iron ore and coke from others. No wonder that Ukrainian mills are financially unstable, making them vulnerable to M&A attacks, especially after Lehman shock of 2008.

Production of Crude Steel by Main Ukrainian Mills in 2010 (1,000 tons)

Arcelor Mittal Kryvyi Rih	6,151	under a TNC from 2006
Azovstal	5,701	SCM
Ilyich	5,652	SCM from 2010
Zaporizhstal	3,449	under Russian capital from 2010 → SCM from 2011
Alchevsk	2,895	ISD (ISD under Russian capital from 2010)
Dzerzhynsk	2,769	ISD (ISD under Russian capital from 2010)
Yenakieve	2,497	SCM
Petrovsky	884	Yevraz (Russia) from 2007
DEMK	802	Mechel (Russia) to purchase

Ukrainian mills can be categorized into following three groups

1. mills belonging to Renat Akhmetov's System Capital Management (SCM) group / Metinvest: Azovstal, Ilyich, Zaporishstal and Yenakieve.
2. mill under a global transnational corporation: Arcelor Mittal Kryvyi Rih.
3. mills recently acquired by Russian capital: Alchevsk, Dzershynsk, Petrovsky and Donetsk Electrical Metallurgy Kombinat (DEMK).

Metinvest as a Case of Collaboration of Ukrainian & Russian Business Tycoons



- A typical case in which 'national economy' is losing significance.
- The world of 'oligarchs' is borderless!

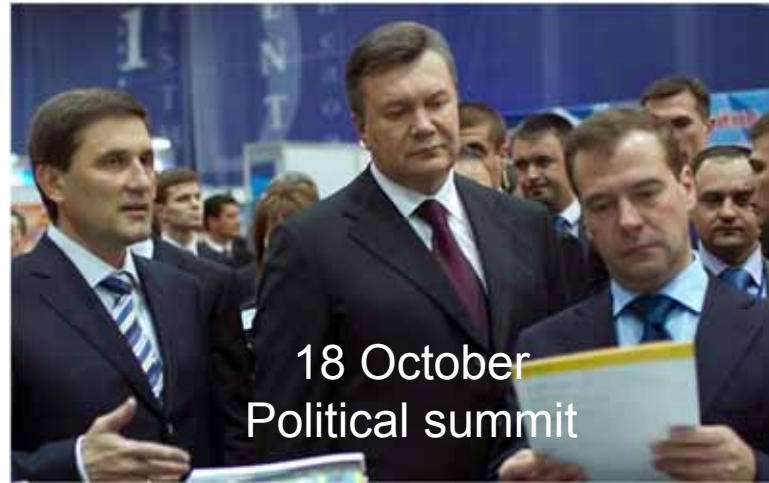
SCM as a Champion of Ukrainian National Economy VS Kremlin?



- Cases which suggest that classic 'nation-to-nation' struggles could be still actual.



Two 'summits' in Donetsk



18 October
Political summit



19 October Football summit
UEFA Champions' League



Football match ended in a draw (2 : 2). How about politics?
Was it a nation-to-nation rivalry?

From Ethnic to Economic Nationalism

- Kost Bondarenko, a Ukrainian expert, predicted as follows; Yanukovych will develop relations with Russia on principles of pragmatism. It is not right to regard him as a marionette of Kremlin. He must rather promote multi-vector politics, which is only one possible way for today's Ukraine.
.....Yanukovych will not put emphasis on history and cultural problems, which divide Ukraine and Russia. But as regards of economic priorities, protection of rights and interests of Ukrainian capital, the new President will be much tougher. Economic nationalism of Yanukovych will come, instead of ethnic nationalism of Yushchenko.

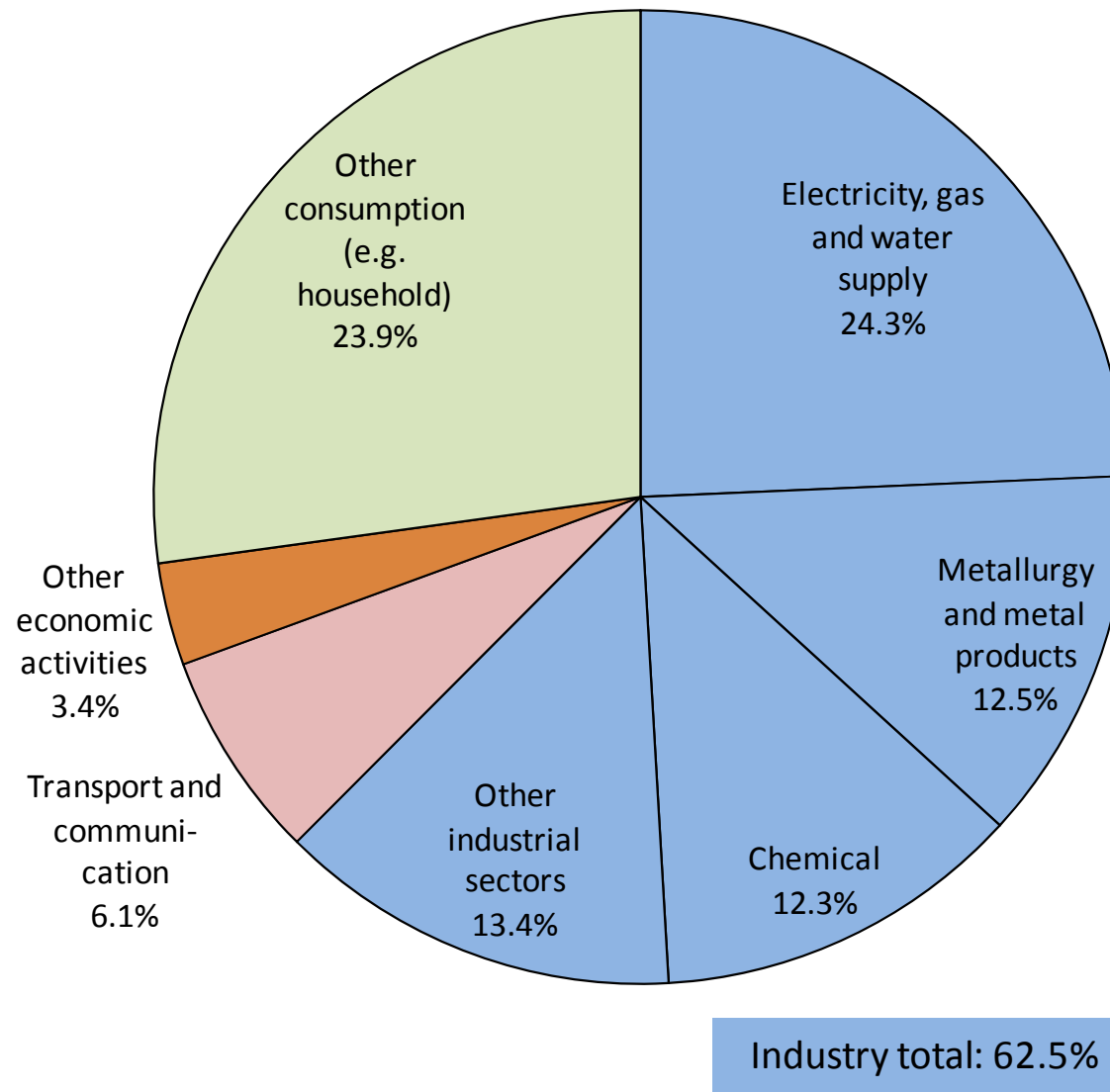
Kharkiv Agreement of April 2010

- Agreement allows Russia to continue to deploy its Black Sea Fleet in Sevastopol in Ukraine for additional 25 years in return for discounted price of natural gas sold by Russia's Gazprom to Ukraine's NaftoGaz.
- Many observers agreed that Yanukovych's decision was intended to help domestic industry.
- The ruling Party of Regions emphasizes that the agreement contributes to Ukraine's national interests. →A revenge by the Party of Regions, which had long been criticized by nationalist wing for pro-Russian or anti-Ukrainian position.

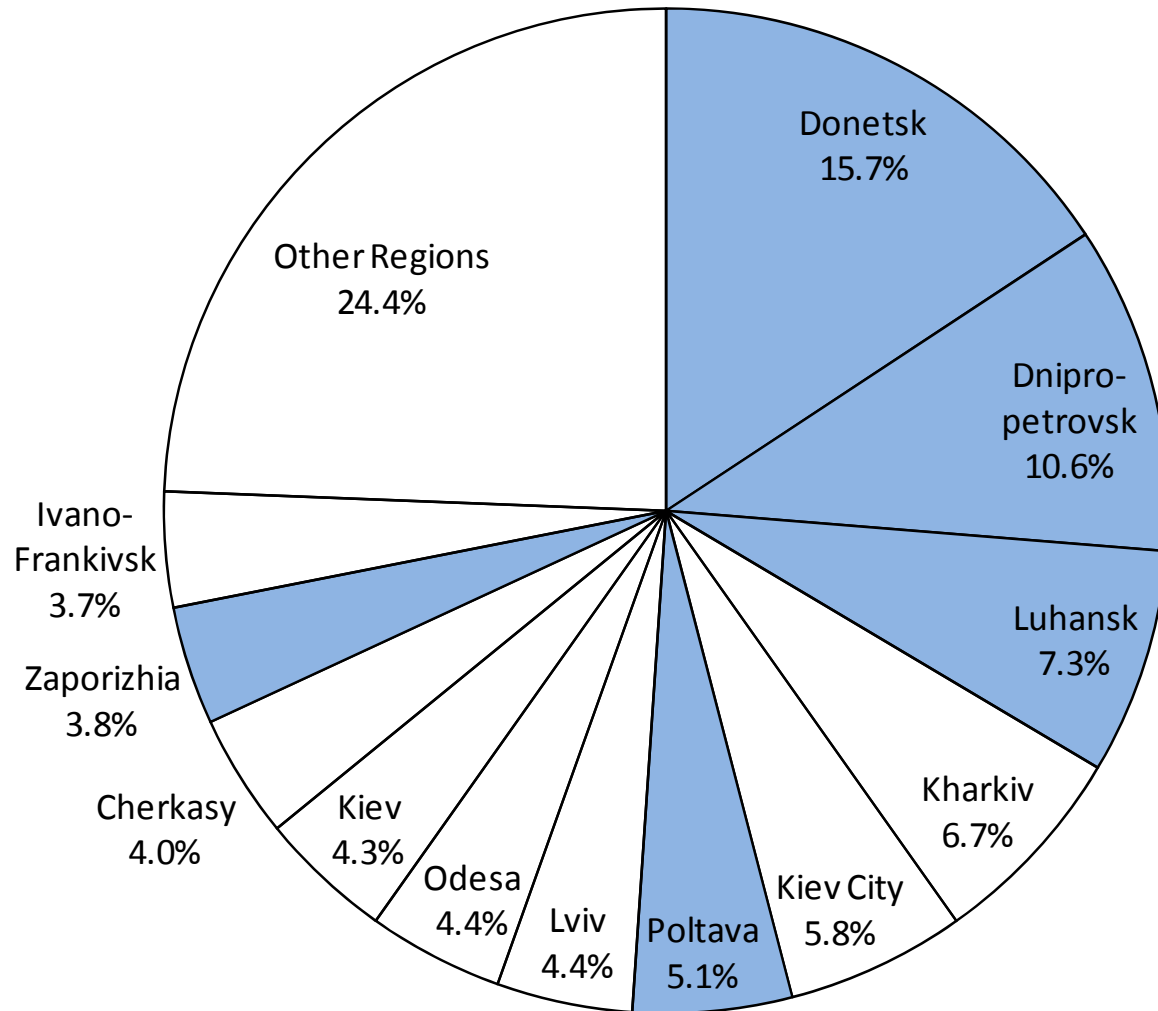
Ukrainian economy depends too much on natural gas

- metallurgy and chemical industry together consume 25% of the total.
- 5 metal & mining Regions of Ukraine, i.e. Donetsk, Dnipropetrovsk, Luhansk, Poltava and Zaporizha Regions, where business interests of oligarchs behind Yanukovich are concentrated, consume as much as 43% of the total.

Ukraine's Consumption of Natural Gas by Economic Sectors (2008)



Ukraine's Regional Structure of Natural Gas Consumption (2008)



Metal & mining Regions total: 42.5%

From Ethnic to Economic Nationalism, then to a Dead End?



Ukraine after Tymoshenko affair (1)

- Why Yanukovich administration put Tymoshenko into trial? According to a Russian expert's analysis, there were two motives.
- They tried to get rid of a political opponent on the eve of Parliamentary elections of 2012.
- Under pressure from oligarchs (steel magnates), they intended to urge Kremlin to reconsider 2009 gas deal which they regarded as unfavorable to Ukraine. They claim, even with Kharkiv Agreement discount, they pay more than Germans do at present.
- Another possible factor: second wave of global crisis.

Ukraine after Tymoshenko affair (2)

- After the scandal, Yanukovich's visit to Brussels was cancelled and the signing of association agreement with EU was postponed.
- There is no real prospect that Russia would concede in gas price.
- I believe that Yanukovich administration still stick to European integration, not to Customs Union promoted by Russia, but.....
- Thus Yanukovich administration, with too close connections with intimate oligarchs, suddenly came to a dead end, and Ukraine to a crossroad.

THANK YOU FOR YOUR ATTENTION

