



## Iron and Steel Market in Russia

## Qui sommes-nous ?



Nous avons créé Businesscoot il y a quelques années avec l'idée que les études de marché ne répondent pas de manière optimale aux besoins de leurs utilisateurs. Businesscoot a commencé comme un side projet pour valider 2 de nos convictions :

- Il existe une demande pour des études courtes, graphiques à un prix réduit
- Il est possible de rédiger des études de qualité grâce à un réseau d'analystes freelances, une méthodologie et des accès à des bases de données

En 2017, notre site web a compté 250 000 visites, nous avons travaillé avec des entreprises du CAC40, des PME, des cabinets de conseil en stratégie, des consultants indépendants, des leaders mondiaux et des entrepreneurs.

Aymar Fondateur de Businesscoot

# Sommaire

<b>QUI SOMMES-NOUS ?</b>	<b>2</b>
<b>SOMMAIRE</b>	<b>3</b>
<b>MARKET &amp; TRENDS</b>	<b>4</b>
<b>STRATEGIES &amp; NEWS</b>	<b>6</b>
<b>PRICE &amp; PRODUCTS</b>	<b>8</b>
<b>PRODUCTION &amp; DISTRIBUTION</b>	<b>11</b>
<b>ENTREPRISES</b>	<b>13</b>

## Market & Trends

The iron and steel industry is essential for the development of several other industries in the country economy: the defense industry, heavy engineering and transportation, energy and construction (shipping and aeronautical construction). Besides, the iron and steel industry is closely connected to the light industry and chemical industry. Thus, the iron and steel industry plays the dominant role in competitiveness and growth of national economy.

Russian Federation takes the leading position at global iron and steel market for years. Being USSR, the country was the biggest iron and steel producer, making [21%](#) of global steel production far ahead of others Japan (16%), USA (14%), France (3%). Transformed into Russian Federation, the country remained the leading position, ranked in 2017 top 5th producer ([4.2%](#)) behind China (49.2%), Japan (6.2%), India (6%) and USA (4.8%). For the last 10 years Global crude steel production is constantly increasing, amounted to approximately [1.64 billion](#) metric tons in 2017 and expected to be 1.70 bln tonnes in 2020, according to the statista survey. [90%](#) of Russian steel output are accounted by 6 leading steel-makers in Russia: Evraz ([\\$1152 M](#)), NLMK ([\\$1121 M](#)), Severstal ([\\$1207 M](#)), MMK ([\\$907 M](#)), Metalloinvest ([\\$1061 M](#)) and Mechel ([\\$694 M](#)). Thus, capitalization of the steel market represents \$6824 M in 2017.

Demand for steel remained weak in Russia, with a [5%](#) drop in 2016 and [8.3%](#) drop in 2015 according to the World Steel Association. In 2017 Russian steel production changed the trend and increased by [1.3%](#) comparing to the previous year. The reason is the construction industry performance, which consumes almost [80%](#) of steel production in Russia (including trading companies and pipes). It tends to increase because of mortgage interest rate cuts. According to the

[acra-rating studies](#), the share of apartment buildings would grow by 15% by 2022, which would be favorable for the Russian steel industry because their construction requires high consumption of rolled steel.

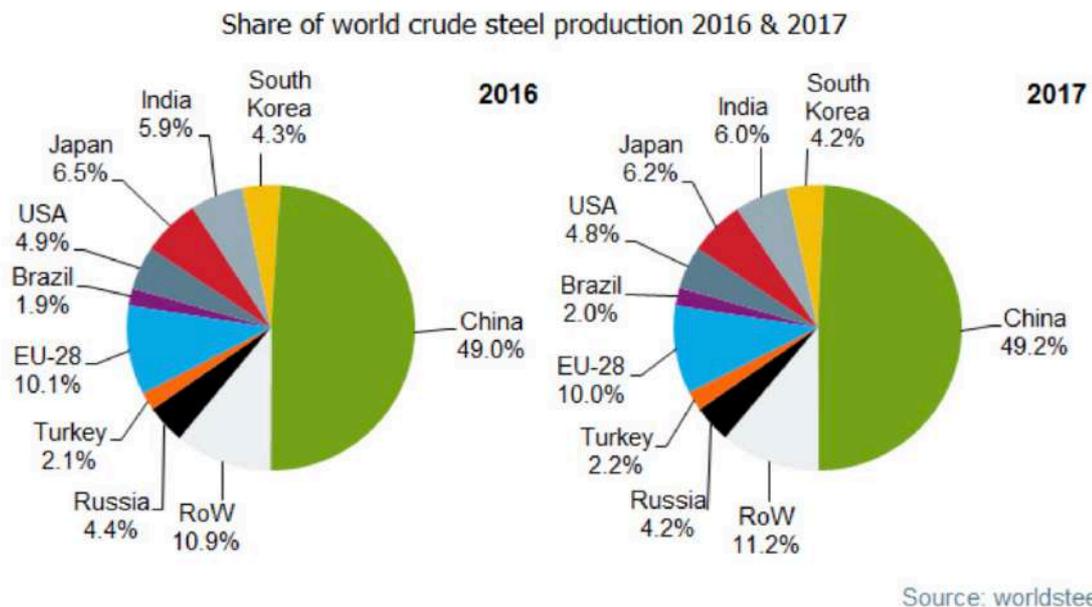
Russian steelmakers remain competitive in export markets because of their low costs in dollar terms, continuing operational improvements and thanks to the weakness of rouble. Nevertheless, the main problems of Russian iron and steel industry still remain severe: protectionism in foreign markets is growing and the domestic market is still remaining one of the most unprotected in the world.

## Construction and industrial output growth forecast



Source: Federal State Statistics Service, ACRA macroforecast

This diagram shows the forecast of Russian construction and industrial markets, which can predict the steel industry development in Russia



as well.

This diagram shows the share of Russia in the global steel production within 2016 – 2017 years.

## Strategies & News

According to the Russian Steel Association, more than 50 restrictive measures in export markets continue to be in force, six of which were introduced in 2017. The most notable was the EU's anti-dumping duties on imports of hot-rolled steel from Russia.

At the same time, Russian market remains unprotected in comparison with other leading countries in the steel industry. As a result, steel imports to Russia in 2017 increased by 58%, compared with last year, mainly from China, Ukraine and Kazakhstan. Nevertheless, most of the Russian iron & steel companies managed to increase production volumes within a year and, using traditionally high profitability indicators for the industry, to get positive financial results. The key

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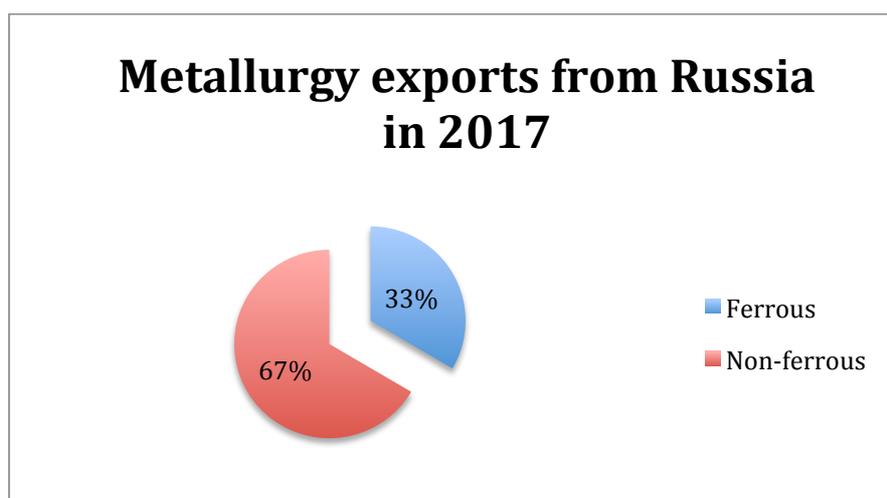
factor for the industry at the global level is the recent decision of China to shut down part of their facilities in an attempt to tackle smog. Thus, steel export from China is declining, while demand in key sales markets is growing, which certainly provides significant support for metal prices and beautiful horizons for other big players.

According to expert [interviews](#), collected by Deloitte, Russian steel-makers have three top strategies for the next years: bringing new products to the market, importing substitution in the Russian market and market expansion.

## Price & Products

Iron and Steel industry, in Russia often called Metallurgy, is the industry that covers obtaining metals from ores or other raw materials, changing their chemical composition, structure and properties, creating metal alloys in order to produce different metal products.

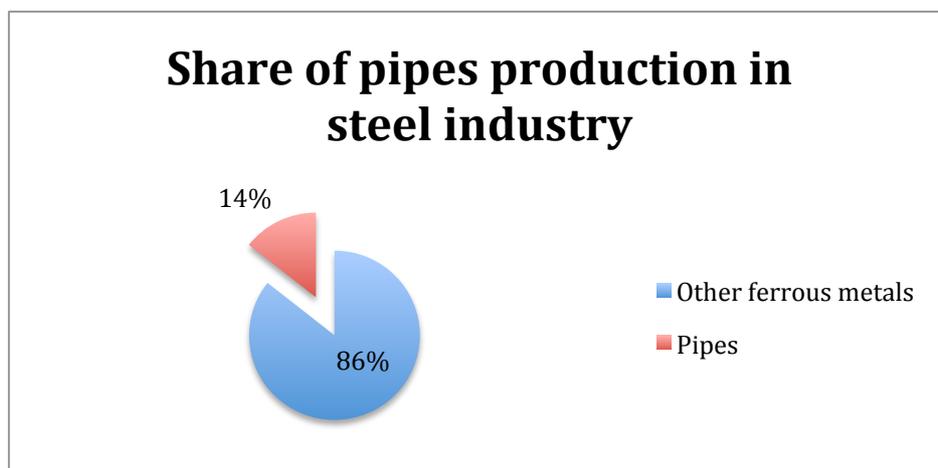
In Russia, Metallurgical sector is subdivided into 2 parts: ferrous metallurgy (black metallurgy) and non-ferrous metallurgy (colored metallurgy). In 2017 Russia exported [\\$18.76 B](#) of black metals and [\\$37.3 B](#) of colored metals.



Ferrous metallurgy involves alloys and processes based on iron. The ferrous metal industry includes more than [1.5](#) thousand enterprises and organizations, [70%](#) of them are city-forming. More than 80% of the industrial output of the Russian steel industry is produced by [9](#) large companies: EvrazHolding, Severstal, Novolipetsk Metallurgical Plant, Magnitogorsk Iron and Steel Works, UK Metalloinvest, Mechel, Pipe Metallurgical Company, United Metallurgical Company and Chelyabinsk Tube Rolling Plant Group.

Non-ferrous metallurgy involves alloys and processes based on all other metals. The biggest Russian non-ferrous metal producers are: Russian aluminum (the world's largest producer of aluminum and alumina), Nor Nickel (the world's largest producer of nickel and palladium), VSMPO-Avisma (the world's largest producer of titanium), Novosibirsk Tin Plant (the only producer of tin and its alloys in the CIS). [57%](#) of metals are supplied to Europe, 23% to Asia, 10% to Americas and 10% to Russia and CIS countries.

Ferrous metallurgy includes pipe industry. There are more than 100 pipe plants in Russia. Biggest manufacturing companies in this field are following. VEST-MD, located in Volgograd, producing welded tubes, special-purpose pipes for use in residential and commercial appliances and parts for the automotive industry. Izhora Pipe Plant, located in Kolpino, St. Petersburg, is fully owned by Severstal. The company produces pipes of large diameter up to 18 meters in length for the oil and gas industry. Vyksa Steel Works, located in Vyksa, close to Nizhny Novgorod, is a division of the United Metallurgical Company. In 2016 Russia has produced [10.07](#) mln tons of steel pipes in total, which represents [14%](#) of the whole black metals industry.



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According to the [Deloitte research](#), Russian steel-making industry remains competitive in the global markets mainly thanks to its high quality of logistics, lower currency risks and stability and unambiguity of labor legislation and regulatory policy.

Steel is a global commodity, thus, prices in the iron and steel industry are correlated with the markets daily changes. They are influenced by many factors, such as natural disasters, the strength of the American dollar and the general condition of the world economy. Withing the last 10 years steel price has been constantly changing. Metal Bulletin's average price for Russian 4mm hot-rolled sheet was [38,700 roubles](#) per tonne cpt Moscow in 2017, including VAT. This is almost 16% increase from the average price in 2016.

## Production & Distribution

To extract metals, it is necessary to convert a metal oxide or sulphide to a purer metal. Thus, the ore must be reduced chemically, physically, or electrolytically. Extractive metallurgists are working with three primary streams: feed, concentrate (valuable metal oxide/sulphide), and waste (tailings). After mining, large pieces of the ore feed are broken through crushing and grinding to obtain particles small enough to be either mostly valuable or mostly waste. Concentrating the particles of value in a form supporting separation allows removing the desired metal from waste products.

The process doesn't necessarily include mining if the physical environment and the ore body are conducive to leaching. Leaching dissolves minerals in an ore body and provides an enriched solution. The solution is collected and processed in order to extract valuable metals.

Steel industry producers must achieve balance between material properties such as strength, toughness, cost, weight, hardness, fatigue resistance, corrosion, and performance in temperature extremes. To achieve it, the operating environment must be carefully checked. In a saltwater environment, for example, ferrous metals and some aluminium alloys can corrode quickly. Metals exposed to cryogenic or cold conditions may endure a ductile to brittle transition, lose their toughness and become prone to cracking. Metals under continual cyclic loading will suffer from metal fatigue. Metals under constant stress at elevated temperatures creep.

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To cut production costs, companies invest in new technologies and digitalization. Recent implemented technologies in Russian steel market were: energy savings technologies, electronic document management, advanced ERP systems, augmented or virtual reality and Internet of things. [68%](#) of Russian steel companies are going to implement full automation of selected business processes in the nearest future

## Entreprises



<https://www.severstal.com/eng>



**Headquarters:** Cherepovets, Russia

**Identification Number:** 3528000597

**Collaborators :** 50,000 (2016)

**Turnover :** 5 812 000 000 \$ (2016)

**Core Business :** Steel, metalware, large diameter pipe production

**Description :** Listed on the Moscow Exchange and LSE, Severstal is the largest steel company in Russia, which was founded in 1993. Severstal also owns Severstal Cherepovets, a professional ice hockey club, and Severstal Air Company.



NLMK

<http://nlmk.com/en/>



**Headquarters:** Lipetsk, Russia

**Identification Number:** 4823006703

**Collaborators:** 54,000 (2016)

**Turnover:** 7 700 000 000 \$ (2016)

**Core Business:** Steel production

**Description:** Listed on the Moscow Exchange and LSE, NLMK Group is Russia's largest and one of the world's leading steel companies, with production facilities in Russia, Europe and the US, and deliveries to more than 70 countries. It was founded in 1931 and today it owns several companies such as NLMK La Loviere (Belgium), NLMK Strasbourg (France) and NLMK Sharon Coating (USA).



Mechel

<http://www.mechel.com/>



**Headquarters:** Moscow, Russia

**Identification Number:** 7703370008

**Collaborators:** 80,000 (2016)

**Turnover:** 6 400 000 000 \$ (2014)

**Core Business:** Steel, alloys, and long steel production, mining

**Description:** Listed on the Moscow Exchange and NYSE, MECHEL is one of the Russia's leading metals and mining companies, comprising producers of steel, coal, iron ore in concentrate and rolled steel products. It was founded in 2003 and today it owns several companies such as Chelyabinsk Metallurgical Plant, Mecheltrans Auto LLC and Mechel Coke LLC. Mechel was the official partner of Moscow women's volleyball team Dynamo.



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