

Alchevskkoks started import of coking coal from the USA

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While until recently the iron and steel oligarchs that in parallel own coke and steel companies have had a possibility to save on coke by purchasing it for their enterprises in Russia, now the lucrative for Ukrainians cooperation comes to its end, not without “help” of the influential neighbors. This summer Russian Railroads OJSC reduced the number of wagons used for coal delivery from Kusbas to Ukraine, which by 10% cut its import. According to the official version, the reason for this unfriendly move became the inadmissible downtimes of Russian wagons at Ukrainian factories. However, the market participants have admitted that it was Russian financial and industrial groups that benefited from this situation, as the Ukrainians obtained proposals to buy more coke rather than coal from Russia.

The accident at Yuzhkuzbassugol also played its role. It is evident that Metinvest Holding owned by Rinat Akhmetov suffered from the coke deficit the least, as in addition to steel, coke and mining companies, it controls Krasnodonugol association, which provides inputs for coking process. However, for the other steelmakers possessing no mines of their own, the accident at Yuzhkuzbassugol and connected with it changes in the market conditions mean additional costs.

The most who suffered from Yuzhkuzbassugol crisis and conflict with Russian Railroads was IUD corporation (Industrial Union of Donbass), as a result of which it had to change the markets where it purchased inputs for coke production.

Back in the middle of the last year IUD announced that it started importing coking coal from the USA. Sergei Taruta informed that presently the corporation purchases coal in the USA for its Hungarian-based steelmakers (DAM-2004 and Dunaferr). “The coal arrives at Constantia port and it is not difficult for us to deliver it to Ukraine”, -- the IUD head explained. – As soon as we launch a coal-injection plant at Alchevsk Iron and Steel, we are going to switch to the U.S. charge-mixture as well, as presently, we do not see any possibility to ensure stable coal supply from the Ukrainian companies.” Mr Taruta did not specify the possible volume of purchases in the USA saying only that it may amount to about 15% of the required. Now, IUD will supply the American coal to the Alchevsk Coke. According to Anatoly Starovoitov, chair of Ukrkoks association, Alchevsk Coke expects to import about 1.5 mn tonnes of coking coal in 2008. Alchevsk Coke delivers coal by bulk ship to Constantia port (Romania) and than transships it to the small 20-30 thousand tonnes vessels and ships to the Ukrainian ports in Reni and Mariupol. This coal delivery scheme will be profitable, if the high coke prices (\$280-300 per tonne) in the Ukrainian market preserve”, -- Mr Starovoit stressed.

However, they do not set too much hope on the import deliveries. The maximum possible import of coking coal is estimated at 8-9 mn tonnes. The increase in import coal delivery is also constrained by the lack of the rolling stock. Plus the railroad freight rates increase. The delivery by

sea from abroad (first and foremost, from Australia) is not economically feasible so far due to the lack of deep-water ports able to accept the vessels with up to 100 thousand tonnes deadweight.

In other words, if current tendencies are preserved (i.e. if the domestic output of coking coal continues to fall), Ukrkoks anticipates that Ukrainian coal producers will supply only 18 mn tonnes of concentrate for coking this year. The total output of coal is expected at the level of 31 mn tonnes. Which means that reducing in the Ukrainian coal output will deprive the domestic coke companies of their key competitive advantage – closeness to the raw material, and 1/3 of coke producers will be forced to leave the market. According to the representatives of Ukrkoks, the most vulnerable will be small coke enterprises with the most obsolete capacities.

In the current situation the objective advantage will have those coke producers that are located at the same industrial site with the iron and steel makers. These companies incur no costs associated with railroad tariffs for coke transportation. In addition, in case of coke gas shortage they can use blast-furnace or natural gas.

Although, the location on the same site with the steelmaker and integration into one business group is not a panacea. An uninterruptable raw coal supply must be organized as well.

Source: UFC Capital