Russia in the world ferrochrome market - competitive power and perspectives

Dr. D.Koncar – Director General, JSC "Serov Ferro-Alloy Plant"

FeCr industry = Bi-polar world (South Africa – Kazakhstan) – objective reality or hasty conclusion ?

Competition in the Ferrochrome Market

	HC FrCr	LC FeCr and MC FeCr
World Production - 2003	5.175 mln.tonnes	0.495 mln.tonnes
Russian Production-2003	0.076 mln.tonnes	0.181mln.tonnes
Leading Producers	South Africa, Kazakhstan, India	Russia,SouthAfrica Kazakhstan, Germany, China

Trends

- Steel industry
- 1.Consolidation of producers

2.Globalization

FeCr industry

1. Consolidation of ferro-alloys producers (incuding FeCr)
2. Integration of producers and raw material suppliers
3. Dominance of strong players
4. Increase of market share by competitive players
5. China is now a net importer of ferrochrome

Ferrochrome–
Drivers of Demand/Supply

- **Demand**
- 1.Steel production growth (primarily stainless steel) – forecast for the foreseeable future, world - 5%% per annum, China and Hong-Kong – up to 9%% per annum
- 2.Availability of FeCr stocks
- 3.Stainless scrap prices/availability
- 4.Nickel prices
- Supply
- 1.Accsess to low cost ore
- 2.Electricity costs
- 3.Charge components prices/availability
- 4.Exchange rates
- 5.Cost of Logistics
- 6.Labour costs/availability

Priority Competitors of Russia in the Ferrochrome Market,%%

	HC FeCr	LC FeCr and MC FeCr
Russia	1.5	37
Kazakhstan	15	14
South Africa	53	20
Germany	--	4
China	5	20
Others	25.5(India-9)	5

KFS in the Ferrochrome Market

- Cr ore quality
- Cr ore cost
- Electricity– cost and quality
- Electricity availability
- Other raw materials availability
- Labour – cost and availability
- Logistics –cost and qualiy
- Production cost
- Profitability
- Production quality
- Guvernment support

MBR ferro-alloys price summary

		2002	2003	2004-1	2004-2	2004-3
Europian free market prices						
Charge chrome,52%Cr	$/lb	0.30	0.43	0.57	0.57	0.57
Ferro-chrome,6-8%C,60%Cr	$/lb	0.31	0.44	0.60	0.60	0.70
Ferro-chrome,01%C,68-70%Cr	$/lb	0.61	0.64	0.70	0.71	0.85
US free market prices						
Charge chrome,52-55%Cr	$/lb	0.33	0.43	0.49	0.58	0.62
Hong Kong free market						
Ferrochrome,8%C,60%Cr	$/lb	0.29	0.37	0.39	0.39	0.48
Japanese import prices						
Charge Chrome,producer	$/lb	0.32	0.48	0.58	0.58	0.70
Charge Chrome,spot	$/lb	0.30	0.43	0.60	0.60	0.60

Estimated Aggregative FeCr cost structure, Russia %%

Expenditures	HC FeCr	MC FeCr	LC FeCr
Chrome Ore	63	34	36
Electricity	18	7	9
Carbon reducer	7	-	-
Silicon reducer	-	*45(incl Foundry FeCr)*	36
Others	12	14	19

Estimated Resultant FeCr cost structure, Russia %%

Expenditures	HC FeCr	MC FeCr	LC FeCr
Chrome ore	63	46	44
Electricity	18	46	46
Others	19	9	6

Low Carbon and Medium Carbon Ferrochrome Competitive Comparison, 2003 (expert judgement)

- Impact Factors

(principal)	Russia	South Africa	Kazakhstan	Germany
Total	39	48	47	32

Competitive Advantages of South Africa and Kazakhstan

- Relatively low costs of raw materals(ore mainly)
- Relatively low electricity costs
- Efficient logistics
- ISO-9000 certification
- Government support

Vulnerable spots of South Africa and Kazakhstan

- Cr ore (South Africa) – necessity of beneficiating fine ore to pellets
- Rise of local currencies exchange rates
- Increase of electricity costs
- Increase of production costs due to tightening of environmental policy
- Unstable character of government support

Steps Taken by Russian Producers

1.Participation in mining business
2.Logistics system improvement – container shipments, consequent decrease of transportation costs
3.Introduction of "just in time" delivery system
4.ISO-9000 certification
5.Organizational development – starting –up holding structures:
•Cheliabinsk - Kuznetsk – ore mines
•Serov – Russian Chrome 1915 – Elektrowerk Weisweiler - ore mines

Low Carbon and Medium Carbon Ferrochrome Competitive Comparison, 2005 (forecast)

- Impact factors

(principal)	Russia	South Africa	Kazakhstan	Germany
	46	48	47	32

Conclusion

- 1. In favourable market conditions Russia has a small specific niche in the High Carbon Ferrochrome market and offers high quality goods to consumers.

- 2.In the Low and Medium Carbon Ferrochrome market Russia has the leading position practically in any market conditions. Measures contributing to strengthening cometitive power of these alloys that are being taken now, give ground for an optimistical view of the future for Russian producers.