

WTO Entry Could Cause Shortage of Steelmaking Scrap

By [The Moscow Times](#)

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Russia may export more scrap for steelmaking to Europe after it joins the World Trade Organization this month, resulting in a shortage at home, Morgan Stanley and Novolipetsk Steel said.

The country will reduce a tax on scrap exports to 5 percent from 15 percent over five years as part of WTO membership requirements, said Anton Bazulev, a spokesman for the steelmaker known as NLMK. "We expect scrap exports to increase and the spread between lower domestic scrap prices and higher European to narrow."

Domestic demand for the material is set to double to about 40 million tons in 2018 from 18 million tons last year as infrastructure spending drives the use of steel for construction, Morgan Stanley analyst Dmitry Kolomytsyn said Monday. Russian companies including Severstal that are adding blast furnaces to turn scrap into steel may see reduced profits from the projects as a result of the tax change, he said.

Severstal invested \$350 million in a long-products mini-mill at Balakovo in the Volga Federal District that is expected to start in 2013, according to Metal Bulletin. The total cost may reach \$600 million, the bulletin said.

Producers in general may seek substitutes for scrap such as steel shavings or cast iron scrap if prices rise, said Natalya Ivanova, a Severstal spokeswoman. The WTO inclusion may mean that exports decline as prices at home rise, she said.

Scrap prices in central Russia were about 8,700 rubles (\$280) a ton in November, while prices for exports to Europe reached \$425 a ton, according to NLMK. Russia sold about 6 million tons of ferrous scrap abroad this year, down from 7.3 million tons in 1998, the year before the tax was introduced, according to the steelmaker.

NLMK, which now consumes about 3.5 million tons of scrap annually, of which 3 million tons it produces itself, is also building a mini-mill in Kaluga. The company "was lucky" to have large scrap sources nearby, so the risks to the project are low, Kolomytsyn said. NLMK wants scrap output to more than double in five years compared with 2010, Bazulev said.

Magnitogorsk Iron & Steel is self-sufficient in scrap and doesn't see any risks from the WTO inclusion, its press office said.

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