December 26, 2024

Oleksandr Vodoviz: 2025 Will Be Challenging Due to Continued Hostilities, State Monopolies' Tariff Increases and Labour Shortages

The main challenges for Metinvest in 2025 include the lack of dialogue with state monopolies regarding tariff increases, the risk of losing Pokrovsk, staff shortages and the difficult economic situation caused by the war and infrastructure destruction. This was stated by Oleksandr Vodoviz, head of the Chief Executive Officer's Office of Metinvest Group, at the "Ukraine and the World Ahead" conference held on 19 December in Kyiv.

The event, organised by NV publication with the support of The Economist, focused on the key factors that will shape Ukraine and the world in 2025. Twenty speakers, including government representatives, leaders from key sectors of the economy, and volunteer organisations, shared their perspectives.

Oleksandr Vodoviz participated in a panel discussion titled "Business in 2025: What Challenges Lie Ahead for Ukrainian Entrepreneurs? Unpredictability, Capital and Labour Shortages, and Adaptation to EU Integration – Summing Up 2024 and Forecasting 2025." Other participants included Danylo Hetmantsev, Chairman of the Verkhovna Rada Committee on Finance, Taxation and Customs Policy, as well as executives of Ferrexpo AG, Smart-Holding, ArcelorMittal Kryvyi Rih and Philip Morris Ukraine.

State Monopolies' Tariffs

According to Oleksandr Vodoviz, Metinvest has already faced significant increases in operating costs and a decline in competitiveness, which has led to the shutdown of the Inhulets Iron Ore. The Group's current strategy focuses on retaining the team and sustaining ongoing operations. Any additional tariff increases will only weaken the business's positions.

"Today, our Inhulets Iron Ore is shut down, leaving 4,000 people without jobs. We are doing everything possible to relocate them to other facilities and provide support. The two reasons for the shutdown of the asset are high electricity transmission tariffs and railway transportation costs. We are unable to match the cost price for our anchor markets. And now we see that Ukrainian Railways wants to raise tariffs by 37% again. A nearly fourfold increase in the gas transportation tariff is proposed, and the electricity transmission tariff has already been raised by 30%. Under such conditions, it is very difficult to think about future development. We have switched to survival mode, striving to somehow preserve what we have," he said

The head of the Chief Executive Officer's Office of Metinvest added that regulators and state companies need to establish a dialogue with businesses on tariff policy. After all, business is the primary consumer of these companies' services, and their decisions will affect enterprises' operations and the indicators of Ukraine's economy.

He noted: "Yes, Ukrainian Railways has its expenses and has done a lot, including evacuation efforts. But we also need to look ahead. Ukrainian Railways has been profitable for the past two years, while we are incurring losses. They had about 6 billion hryvnias in cash in 2024, while we have none. They are unwilling to restructure their liabilities, while private businesses must do so through bonds and other financial instruments. Most importantly, we currently have no dialogue with state monopolists —neither with the National Energy and Utilities Regulatory Commission (NEURC) nor with Ukrainian Railways — and that is the real issue."

The Situation in Pokrovsk

According to Oleksandr Vodoviz, Metinvest's mine in Pokrovsk is the only producer of coking coal in Ukraine, supplying raw materials to the Group's plants and the remaining metallurgical facilities in the country. As the front line approaches the town, a third of the mine is no longer in operation.

"If the Pokrovsk mine is occupied, we will have to transport coal by sea. Economically, it becomes unviable to produce steel when coal is shipped by sea. This raises a critical question for us and our colleagues in the steel industry: What will we do if Pokrovsk, say, falls? We understand the critical importance of the mine to Ukraine's economy. The russians understand this too," he said.

The head of the Metinvest CEO's office added that the Group is trying to relocate the mine's employees to a safer part of Dnipro region, where it's building temporary housing for them, but not everyone wants to leave.

Expectations for 2025

Overall, Metinvest holds a pessimistic outlook for the country's economic situation and its performance in the coming year. This is caused by several factors, including the ongoing hostilities and their proximity to areas where the Group's assets are located. The destruction of infrastructure following Russian attacks also has a significant impact. The situation in the country, particularly in the financial sector, remains dependent on the stance of Western partners. Additionally, the labour shortage and rising costs, particularly due to tariff increases, exacerbate the situation.

"The situation is deteriorating for us. The infrastructure captured by the Russians in the east has been destroyed and bombed. Tremendous funds are needed to rebuild it, and we won't be able to restore it quickly enough to contribute additional GDP to our country," said Oleksandr Vodoviz.

He also noted increased competition for labour due to the large number of Ukrainian migrants abroad and mobilisation within the country.

"It has now become obvious that we will have to compete for labour, for people who left us, with Poles, Hungarians, Germans," noted the Head of Metinvest CEO's Office.

Furthermore, not all demobilised employees show a desire to return to work. Currently, the Group receives on average one response from a potential employee for every five vacancies.

"Approximately 10,000 people in Metinvest have gone through the army. About two thousand have returned. Unfortunately, we don't see a significant trend of people returning from the front to their workplaces. We work a lot on this, allocate funds to socialise people, help their families," added Oleksandr Vodoviz.