

The opening of the East

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The dissolution of the Soviet Union in December 1991 opened the largest reserves of raw materials in the world to international trade. Russia, Kazakhstan, Ukraine and the other successor states possessed oil, gas, coal, aluminium, nickel, copper, zinc, potash, grain and steel in quantities that exceeded their domestic needs, although they lacked the marketing networks, the trade finance and the knowledge of Western markets needed to sell them. When the state trading organisations of the Soviet era dissolved, new companies, many of them controlled by former managers of the state enterprises, took over the production and sought partners abroad.

The traders of Zug were among the first to arrive. Marc Rich + Co had traded with the Soviet Union before 1991 through the state foreign trade organisations. In the early 1990s, Western traders concluded contracts with the new producers for oil, aluminium and other metals. Some of these took the form of tolling agreements, under which the trader supplied the raw material, took the finished metal and so financed the production of companies that had no access to Western banks.¹ The method of prepayment secured by future deliveries, which Part E described, became the standard instrument of the trade with the East because it allowed the traders to lock in supplies and gave the producers the working capital they needed.

The aluminium industry illustrates the pattern. In the early 1990s, the large Russian smelters had no money to buy alumina and no channel to sell their metal. Traders supplied the alumina and took the aluminium in return, a system called tolling, which let them earn the margin between the cost of the alumina and the price of the metal on the London Metal Exchange. The competition for control of the smelters became violent in the mid-1990s, a period that the Russian press called the aluminium wars. After the Western

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traders withdrew from direct involvement in the smelters, the Russian owners consolidated the industry in the following decade.²

1 Notes

1. Wikipedia, "Trans-World Group", en.wikipedia.org: Trans World concluded its first tolling agreement in 1992 with the Bratsk aluminium smelter (BrAZ); Wikipedia, "Marc Rich", en.wikipedia.org: business ties in the former Soviet Union. ↩
2. Wikipedia, "Trans-World Group", en.wikipedia.org: tolling agreements under which the raw material and the finished product remained the property of the trader; by 1994 over 600,000 tonnes a year, about a quarter of Russian aluminium exports; violent "aluminium wars" around the smelters (murder of the Krasnoyarsk deputy director in April 1995); the trader squeezed out of its holdings from late 1997 and its aluminium assets sold in early 2000 to Roman Abramovich, who merged them with Oleg Deripaska's operations to form Russian Aluminium (Rusal). Rusal, press release "RUSAL, SUAL and Glencore deal completed", 27 March 2007, rusal.ru: formation of UC Rusal. ↩

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