

Challenges Facing Arab Steel Industry

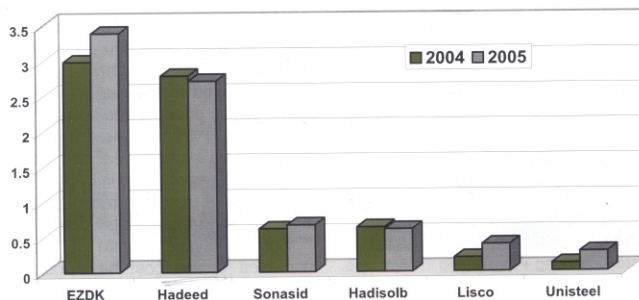
(Contd. from May'06 Issue)

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Inputs Increased Costs:

As the other companies, the Arab steel companies have during this year been affected by the high costs of inputs employed in the manufacturing process. The prices of iron ore increased by 71% and of the iron pellets by 90%. This increase reached 120% for coke. Prices of scrap increased by variable rates from one month to another and the freight cost doubled.

Some analysis indicate that these increased in the cost have loaded every ton of the final products with a cost estimated by about US\$ 100,-, but the steel mills did not realize a similar increase in the prices of their products. On contrary, the steel prices have encountered successive drops during most months, which constituted a pressure on the profitability of the steel companies. As a result, it can be said that the steel industry has during this year faced a number of factors which has a negative impact on the



companies' returns. These factors are: inputs increased costs, reduced prices and increased freight costs.

It would be important to think over the way with which it is possible to deal with these changes taking place to the status of the steel industry, especially that it would not be expected to have a radical change for any of these factors during the next period, but all of them are possible to continue in the same direction, even though it has to be stressed that any price fall will not restore them to the

situation which was prevailing at the beginning of this decade. They will rather maintain a lower level than that they had in 2004 and higher than that they had before 2003.

The investigation conducted by the Union in a number of the Arab steel companies on the impact of the rising costs on the profitability of companies during this year shows that all companies have asserted:

- The negative impact of the rising costs of raw materials on the results of the company's activities in terms of profitability.
- The inputs increased costs which resulted in the production increased costs have been the principal factor which pushed the prices of products up.
- The inability of companies to increase the prices of their products by the same rate of the increased costs.

Incomplete Utilization of Production Capacities :

In spite of the fact that the demand situation is considered good nowadays in most Arab markets, there are unutilized production capacities. There are still companies operating with less than 50% of their theoretical capacity. There are also idle production capacities resulting from factors connected with the market and the technologies employed in these companies which have come to be considered old technologies and sometimes resulting from the absent coordination between the producing companies, because concentration on producing reinforcing steel still constitutes about 75% of the total Arab production of steel products and more than 85% of the total production capacities if this capacity is taken into entire account.

The question of the unutilized production capacity could

not pose itself as a problem for some companies and under the circumstances where the market conditions look good. However, it remains a problem for a number of companies in more than one Arab country.

We find this unutilized capacity, for instance, in Egypt, where the steel companies which are more than 20 companies have production capacity of about 9.9 million tons, whereas the actual production is about 5.2 million tons. We also find these unutilized capacities in Algeria, Jordan and Syria where there are many mills. As a result of the similarity existing between their production and as the market does not accommodate all their production capacities, some of these companies are operating with less than half of their production capacities. This phenomenon may be more aggravated in the future with keeping going on with the same trend regarding setting up mills depending on producing similar products without taking into consideration the actual needs of the local market and the trends of the world market in addition to what competition in these markets may cause of difficulties for the companies trying to find a place for them in these markets.

New Investments in Steel :

The demand growth for steel which is expected to get increased next year by 5% according to the international Iron and Steel Institute (IISI) has constituted a strong impetus for a number of new investments to enter the field of this industry. Even though china is the country leading this demand at the world level, there are some other regions of growth in the world which are expected to play an important role in the steel demand growth. The Arab countries are considered included in these regions; in particular the Arabian Gulf region which is the major first region at the Arab level in the field of investment in the steel industry as well as in the increased demand for the steel products.

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Production Capacities	3.7	4	4.5	5.3	6.5	7.3	8.4	9.7	9.9
Production	2.9	3.2	3.7	3.9	3.9	4.2	4.3	4.8	5.2
Surplus in Production Capacity	0.8	0.8	0.8	1.4	2.6	3.1	4.1	4.9	4.7
Market Consumption	3.8	3.9	4.7	5.1	4.1	2.4	3.9	4.2	4.2

Table 6 : Comparing between development of capacities production and market consumption in Egypt during the 1966 - 2004

Perhaps it would be noticed, though limitedly, that some of these investments have extended beyond the geographical border where they are , and we may describe them by the expression "Investments across border". This is what we find in the investments of a number of capitals in Saudi Arabia and the United Arab Emirates.

It would also be noted in the table of the new projects that a number of investments in relation with setting up new projects which have gone ahead during this year and concentrated on setting up Direct Reduction projects and that a number of extensions will come on stream during the next two years, which will make the Arabian Gulf region one of the major regions where the steel industry will have a strong presence.

Perhaps it would have been necessary to be taken care of to say that if the world economy is afraid that continuation of the rise of oil prices would create some risks for it, which would have negative impacts on the development of the steel industry, we are of the opinion that this price rise would be a good opportunity for the development and upturn of this industry, provided that such a decision for investment in the steel industry should not be based only on the oil rising prices but also on enhancing the ability of this industry to meet the growing needs for steel. In this regard we should consider the pipes industry which is a principal steel flats consuming industry. There must be an encouragement for setting up this industry and the requirements of developing it should be made available so that it can be more able to meet the present development of the oil and gas industry for which the pipes industry is considered one of its major requirements.

Development of the steel industry should not be confined to reinforcing steel, but it should be extended to setting up a number of the steel products consuming industries.

Perhaps this needs dedication of strong campaigns of awareness of the importance of the developments of the steel qualities which must be made available in our markets and which have a higher doubled value when they are to be exported to the world markets (table6)

Arab Production of Raw Materials & Semi-Finished Materials :

The good situation of demand for the raw materials and their high prices was reflected on the Arab companies

producing iron ore, iron pellets and hot-briquetted iron. Regarding the iron ore the National Company for Industry and Mines (SNIM) produced a little bit more than 8 million tons and it exported 7.7 million tons during the first nine months of this year. The total value of sales during the first nine months of this year were 40% over the value of sales of the same period of 2004 despite the fact that the quantity of exports in 2005 were during the first nine months lower by about 600 thousand tons. Improvement of the sales value is caused by the rising prices of the iron ore during this year. The increase of prices amounted to 71.5%

As regards the iron pellets production of the Gulf Industrial Investment Company (GIIC) in Bahrain, this production increased by 8% during the first nine months of this year. During this period it reaches 1.788 million tons against 2.654 million tons in the same period of 2004. Its sales amounted to 1.788 tons against 1.547 million tons in the same period of 2004, i.e., up by 14.2%.

As a result of the increased demand for iron pellets, the company now is implementing a project to double the production capacity from 4.6 million tons to 9.1 million tons per year in 2009.

We have here to point also to the fact that the Mauritanian SNIM Company which established a joint venture with the Australian Sphere Company is planning to set up a mill for the iron pellets with a capacity varying between 6 and 7 million tons per year. The feasibility studies have proved the suitability of the Mauritanian iron ore to produce iron pellets. The importance of this project lies in its being able to meet a part of the increasing demand for iron pellets either for the Arab steel mills or for the world markets.

It is expected, according to CVRD that the world consumption of iron pellets will increase by about 70% until 2019. It will rise from 311 million tons in 2004 to 370 million tons in 2008 and to 536 million tons in 2019.

With regard to the hot-briquetted iron produced in the Libyan Iron and Steel Company, the company produced 395 thousand tons during the first nine months of this year against 430 thousand tons in the same period of 2004, as 355 thousand tons were exported to the world markets.

Consolidation of Steel Industry :

The world steel industry is continuing assurance of the advantages which may be achieved through mergers and acquisitions made during the recent years in the steel industry.

In spite of the fact that most mergers are still being achieved inter-regionally between major companies and that this has made these companies which have become to own a larger number of mills in the world more able to decide certain policies either in respect of deciding prices or of cutting back the production capacity or of anything else which makes the small companies forced to follow what the major companies do or follow the same planning drawn up by them, the trend for consolidation and merging continued by the major companies during 2005. The major companies like Mittal Steel and Arcelor have increase acquisitions in a number of regions in the world. For instance, Mittal Steel today owns the largest production capacity at the world level, distributed over 17 countries in the world. This trend for consolidation, however, is still absent in the Arab steel industry. If there is an apparent trend in this field, it is what some world companies are trying to do through communicating with or paying visits to some Arab companies with the aim to get acquainted with their future orientations concerning going into mergers, acquisitions or partnerships or any other frameworks which have become known, benefiting from their experience they got in some Arab countries, such as acquisition of Mittal Steel of 70% of the steel complex in Annaba in Algeria, the acquisition of CVRD of 50% of the Gulf Industrial Investments Company in Bahrain, and the investment of General Company for Iron and Steel (Hadeed Hama) in Syria by the Austrian Hares Group.

The Union sees in consolidation or merging at the level of the Arab steel industry an important issue which should be seriously studied and receive more attention by those who are involved in this industry. The future of this industry lies in consolidation and merging. Perhaps, the necessary and significant step under the present circumstances is to make coordinating arrangements between the companies working in this field. The start would be commercial or marketing-oriented and in accordance with what comes out of the studies which have to be given priority in this respect.

