UAE Steel Market

And the Possibilities of Steel Suppliers from Russia, China and India

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The Cooperation Council for the Arab States of the Gulf (GCC), which includes Saudi Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates, and the Sultanate of Oman, imported 14.3 million tons of steel in 2005, contribution of UAE being just in excess of 4 million MT. The figure is expected to reach 21 million tons per annum by 2008 if a conservative growth rate of 10 percent is maintained. The seven GCC countries have launched many development projects in recent times, especially after the oil price increases of the past two to three years.

High financial revenues can be singled out as a direct effect of the oil price increases, so it makes economic sense for GCC countries to begin new developments and gas & oil projects when oil prices are high, and this is what the GCC countries did after the oil price increase in 2003.

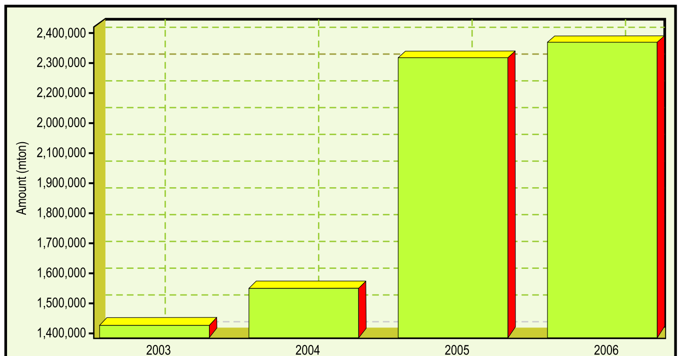
Other important consequence is there, which is the fact that the steel needs for the GCC countries are supplied mostly by external sources such as Turkey, China, and the CIS countries. The United Arab Emirates had a high annual domestic demand of 4 million tons in the year 2006 and is expected to exceed 6 million tons during the year 2007 due to the huge construction projects being carried out there. Meanwhile, this small country, as the main free zone in the Arabian Gulf usually facilitates the re-export of goods to other neighbouring countries, in particular to Iraq and Iran. Of course, due to the high demand for steel in the Arabian Gulf region, a lot of UAE traders or stockers already have low stocks, a factor which may affect the market for construction sections considerably.

Research carried out by industry professionals in the region estimates that active construction projects currently under way in the Gulf region are in excess of US$1 trillion.

The UAE, currently the largest construction market among the Gulf Cooperation Council (GCC) countries, has more than US$300 billion worth of active projects and the emirate of Dubai alone has over 25% of the world's active cranes in operation. Apart from the UAE, projects in the Kingdom of Saudi Arabia doubled in the last 12 months to more than US$200 billion;

Kuwait currently has US$211 billion worth of active construction projects, with an additional US$170 billion worth of projects elsewhere in the region.

This clearly illustrates the extent of demand for Steel, Cement and other construction material which has continuously maintained its pace of double-digit economic growth. Thus, for manufacturers and suppliers of these products, this is the perfect time to look into ways of expanding their product base in the region. In this scenario, industry professionals involved in the supply of such products understand the need to find out an alternative source in order to supply available shortage.



Total Turkish Steel Exports (All Products) to UAE 2003 - 2006 (ton)

Due to the large infrastructure and property development being undertaken in the UAE, the demand as well as the price of steel has increased tremendously. UAE steel prices doubled to nearly $540 per tonne last year till $650 per tonne last this year and the increased demand for steel has also created a major market sector or steel stockists and suppliers who compete to provide the most comprehensive variety of steel on demand.

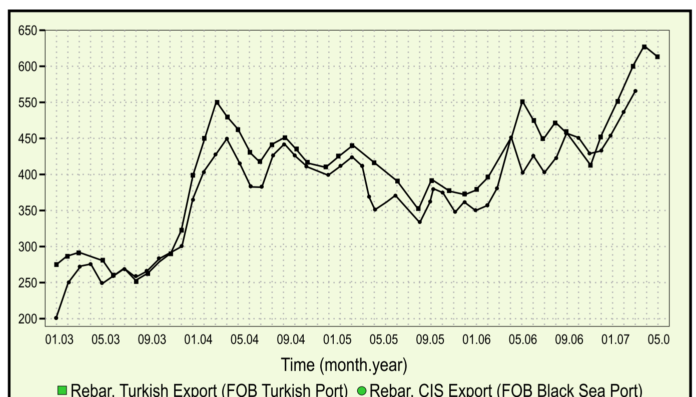
The demand for steel has gone up further due to the post-tsunami rehabilitation work being carried out in the affected region, resurgence in the Far East economics and major economic growth in India. Industry experts believe that the steel industry, in particular, must now strike a fine balance between short-term profitability and long-term sustainability. In this regard, some manufacturers are showing a tendency to hike the price, "Making hay while the sun shines", there are others, a majority of them, who are of the belief & are strongly advocating stabilizing of prices to bring long term stability and sustainability, thus averse to the idea of the minority of "cutting the goose that is laying golden eggs" and instead compete on a level playing field.

In the UAE, the construction projects, shipbuilding companies and rising numbers of labour colonies and storage godowns have ensured a very healthy market for local steel suppliers for the next few years. In the present scenario, only those steel traders who can provide quality steel on demand at competitive prices can survive, revealed sources from the industry. There are about 15 players in the local UAE market with three to four (top level ones) are considered as pioneers & leaders. At present, seven iron and steel factories in the UAE are manufacturing various steel products, which are consumed by local construction industry. Also the UAE produces 50,000 tonnes of scrap. As a growing economy, the usage of steel and generation of scrap in the country is considerable, according to a leading scrap dealer.

On the production side, there is a lot of consolidation by major steel manufacturers who have become much more organised in forecasting market demand. This will control the supply of steel and help create stability in the market, as there are three factories in Jebel Ali, two in Sharjah and one in Mussaffah in Abu Dhabi.

The price of rebar being imported into the area now seems to be stabilising, following several months of hikes. Demand is still high in the construction boom economies of the Gulf Co-operation Council (GCC) countries. But the increasing presence of cheaper Chinese steel and a decision by Turkish producers to reduce their offer prices has cooled the market. The Chinese are giving Turkish producers pressure on prices and their steel is of good quality.

The then cfr Dubai price for non-Chinese rebar was around AED 2,350/tonne ($640/t). Another source like Turkish mills have reduced their offers from $640-650/t cfr at the end of March/beginning of April, to around $625/t cfr recently. Demand is still very high in Dubai at the moment and the price level of imported rebar in the UAE market is at around AED 2,400/mt ($653/mt) delivered to site on a theoretical weight basis for 3 and 5 month deferred payment, excluding VAT; although some traders are concluding sales below the above price, most traders are resisting at a level of AED 2,400/mt.



The Evolution of Prices and Ukrainian Steel (2003-2007)

According to some unconfirmed reports, some offers being made from Turkey were at $610-615/mt CFR on theoretical weight basis. However, most Turkish producers were not willing to reduce their prices to these levels; though prices for CARES certified/approved rebars of China Origin remained unchanged during the last week, there are reports of some traders who increased their offer from around USD 560.00 CFR level to USD 585.00 CFR, mainly due to the withdrawal of VAT rebate by the Chinese Government, while other traders maintained their offers were at around $570/mt CFR.

Traders in UAE were not worried at that moment because they had stocks bought at $540/t cfr. But if prices to keep failing it could cause some problems when the May and June shipments come in. However, should this come to happen, this will directly affect the demand/supply situation with more & more stockists and traders opting for Chinese origin rebars instead of Turkey and/or CIS Steel, due to the big difference in purchase prices, resulting in higher rate of return and higher profitability.

Given on Page 30 two charts of steel show Turkish origin exported to UAE from Jan 2003 till Dec 2006. The first one shows the tonnage amount increase during this period and the second shows the price per tonne increase during the same period as well. All of this reflects the huge and the immense steel demand in the UAE to the huge construction projects being carried out there.

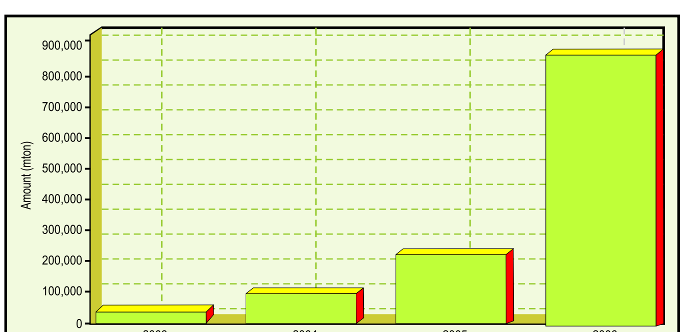
Steel Suppliers from China

Chinese exports of rebar to the Middle East have soared since 2005, according to figures provided by London's Iron and Steel Statistics Bureau (ISSB). The figures support recent reports from market sources claiming Chinese mills hold a 10-percent share of the valuable Arabian Gulf rebar market and that more traditional suppliers such as Turkey and Ukraine have experienced increased competition.

Exports of rebar to the Middle East region have been traditionally dominated by Turkey and Ukraine, said ISSB analyst Nick Pearton. (In 2006) Turkish tonnage to the Middle East fell 9 percent and Ukrainian tonnage fell 13 percent while Chinese exports climbed 900 percent to 422,000 tonnes or 10 percent of the total.

According to ISSB's figures, China's exports of rebar in the first quarter of 2007 amounted to the same as in the whole of 2005, and were up 111 percent in 2006 year-on-year.

Middle Eastern countries not including Turkey took 3 percent of China's rebar exports in 2005 (41,000 tonnes), 12 percent in



Total China's Steel Products (All Products) to UAE 2003 - 2006 (ton)

2006 (422,000 tonnes) and 41 percent in the first quarter of this year (665,000 tonnes).

And the figures also show that rebar is becoming a more and more important export product for Chinese mills, after exports of rebar in 2006 grew faster than exports of long products in general and faster than total exports of Chinese steel mill products, although flat product exports did grow faster.

And in the first quarter of 2007, exports of rebar jumped 20 percent when compared with the final quarter of 2005, while exports of semis, flat products, tubes and total exports fell back when the same two periods are compared.

The recent Chinese government decision to cut tax rebates on some steel exports will not eliminate the threat of large-volume steel exports to Middle Eastern countries and GCC.

Also the new system of licensing exports is one of several Chinese government measures designed to cool the rise in steel production and to avoid trade conflicts caused by rising exports which on its own will not have a significant impact on global steel trade. Chinese steel exporters had reacted with confusion to the new licensing system for exports of 83 steel products including construction materials and hot and cold rolled coil at that time.

"This is extremely complicated.... We have no idea whether we'll be allowed to export any more as the government didn't provide any criteria for what kind of company will be approved," said an official with a large trading house in the central Chinese province of Hubei.

The Ministry of Commerce and the General Administration of Customs announced on April 30 that all steel exporters must apply for permits that would be valid for three months from the date of issue with local authorities. Exporters must apply for a licence for every single deal with a settled contract, according to an official with the commerce ministry. Chinese steel exporters immediately started to prepare for the application of the licences following the seven-day national holiday, which ended during 1st week of May 2007.

"We don't know what will happen to us after May 20... It is like (ending) up in the dark," said a Shanghai-based trader.

Industry analysts said they expect the Chinese government to control the quantity of steel exports through the licence system in an attempt to reduce trade disputes. China became the world's largest steel exporter by shipping 43 million tonnes of steel products last year, due to lower prices and strong international demand. Low prices offered by Chinese exporters led to protests by steel producers in Europe and the USA in 2006.

Meanwhile, the China Iron & Steel Assn (Cisa) and the commerce ministry were working on setting detailed standards for exporters, Cisa's deputy secretary general Qi Xiangdong told MB. There has to be some impact on steel exports as we are increasing the procedural requirements.

It is crystal clear that the government firmly wants to cool steel exports down, the government wants to closely monitor steel exports through this new system, but there is no direct link between the licences and an export tax.. Meanwhile, I'm sure exports will go down and eventually erase some profits from steel producers" Qi said.

Additionally, one Chinese mill already having procured CARES approval, with other 4 manufacturers to follow suit, it is anticipated that the Monopoly enjoyed by the Turkish Manufacturer's will come under tremendous competition from Chinese Origin Rebars, unless corrective measures are taken by Turkish Manufacturers. Price being the main concern as it is believed that the construction sector of UAE has been stressed to the limit !

Steel Suppliers from Russia

Russian businessman Alisher Usmanov's Metalloinvest holding has created a joint venture with partners from the United Arab Emirates to set up Hamriyah Steel a 1M tonne/year rebar rolling plant in the UAE.

A site for the plant and an industrial license have been secured, Steel Business Briefing learns from Metalloinvest that construction work is expected to be completed within two years and it will take a further year for the mill to reach projected capacity.

The new project is aimed at diversifying Metalloninvest's export markets and raising its share of high value-added output. It is planned to direct Ural Steel's billet sales away from low-profit exports and towards delivery to the UAE mill for rolling into rebar.

Hamriyah Steel is planned to be finished at the end of 2008, and is expected to be working at full production capacity by the end of 2009. As previously reported by Steelorbis.

Metalloinvest's new plant will be located in the UAE's Hamriyah Free Zone and will produce approximately one million metric tons of rebar a year. Billets necessary for production will be supplied to the new plant by Metalloinvest's subsidiary Ural Steel. The estimated cost of the new plant is 5156 million.

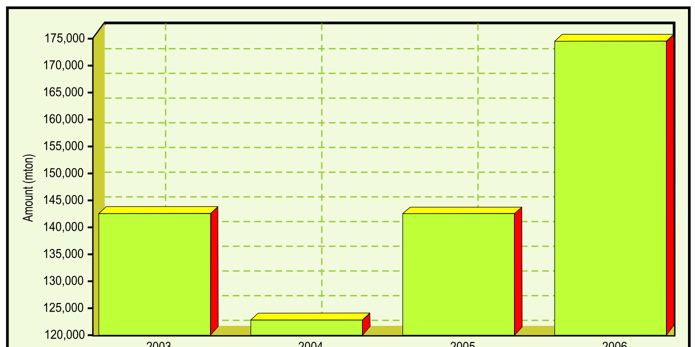
In 2005, rebar consumption in Saudi Arabia was 4 MT and in the UAE it was 3.5 MT, while in Russia it was just 3.2 MT. As local producers are unable to meet this demand, around 64% of rebar consumed in the Gulf region is imported and the volume of these imports stands at around 5.8 MT per year.

Russian exports of rebar to the region are hampered by deterioration of quality of rebar during transit and high transport costs. With its new rebar mill in the UAE, Metalloinvest expects to capture around a 25% share of the market there and also to export rebar to other countries in the Middle East, Central Asia, and North and West Africa.

Exports of Metal Products from Russia to UAE in 2004-2007 in Thousand USD

Products	2004	2005	2006	Jan-Feb 2007
Flat Products	102,135	113,141	84,949	3,891
General Metal Goods	206	226	831	13
Semi-products	10,026	4,520	39,736	
Long Products	11,659	3,375	1,497	235
Tubes	29,768	40,106	34,410	982
Total	**153,795**	**161,368**	**161,424**	**5,121**

Products	2004	2005	2006	Jan-Feb 2007
Flat Products	43,848	52,456	37,215	1,766
General Metal Goods	1,491	779	1,447	241
Semi-products	2,297	1,552	13,116	
Long Products	3,443	1,715	623	139
Tubes	16,911	33,927	34,165	3,252
Total	**67,989**	**90,429**	**86,567**	**5,398**



Total Russian Steel Exports (All Products) to UAE 2003 - 2006 (ton)

The capital investment is estimated at around $156m. Negotiations to obtain financing are underway with leading international financial organizations.

However, with the Russian Government going on with the development of infrastructure and other development projects coming up rapidly, the domestic price of Rebars in Russia is hovering around the USD 1,000.00 PMT; this situation is not expected to improve at least in the near future, hence no exports from Russia and/or imports to Russia are anticipated, thus giving the Ukraine an Producers a big advantage.

Above is the spreadsheet that shows the export figures of steel products from Russia to UAE in tonage and US dollars value.

Steel Suppliers from India

India's Essar group has announced its plans to set up three steel plants involving an investment of around $1.5bn in the Middle East, of which the first will be commissioned by the first half of 2009.

It has signed a 50:50 joint venture agreement with Qatar Steel to set up a 1.5 mt/y steel plant. This will include a $325m HBI plant in the first phase and a 1.5mt/y long products EAF rolling mill costing $300-400m in the second phase.

Construction of this project is likely to commerce in November and with commissioning planned for 30 months later. Essar has already obtained the land for the proposed plant and the finalised the financing for the project, and is now aiming to sing natural gas contracts with the Qatar government.

Its second proposed Middle East steel plant will be located in Iran and is identical to its proposed Qatar plant with respect to product, capacity and equipment. Essar will take up a 60% stake in this Iranian plant with pension funds holds the remaining 40%

Its third investment is a $200m 1mt/y rolling mill to be located at the Hamriyah Free Zone on the outskirts of Sharjah, UAE. Essar plans to import steel billet from its Indian plant at Hazira to feed this plant. other details relating to the Iranian and the UAE projects are under finalisation, company sources tell Steel Business Briefing.

Essar Group also owns and operates Essar Steel, an integrated steel mill at Hazira. It is in the process of expanding its HRC capacity from 2.4mt/y to 4.6 mt/y this calendar year.

A UAE based steel fabricator Emirates Building Systems is to set up a fabricating yard with an Indian partner in Khopoli, Maharashtra province.

Emirates; which is a subsidiary of Dubai Investments Industries (DII), will not reveal who the Indian partner is, although DII described it as, "a major player in the Indian industry."

"We are in final discussions with an Indian company to establish a steel fabrication facility. Our assessment is that India has great growth potential so we want to position ourselves in that market," he says.

The Indian fabrication plant will have a capacity of 50,000 tonnes/year. Emirates is also expanding its Dubai fabrication plant from 45,000 t/y to 80,000 t/y.

Indian steel pipe maker PSL Ltd. has secured a $20m contract to supply spiral welded pipe to Oman, Steel Business Briefing learns. It is to be used in a major water project that involves connecting the Gulf State's major towns using a cross country trunk pipeline.

This is the second large Middle East project in recent months for PSL, one of the largest pipe manufactures in India. In September the company secured a contract valued at over $17m from the UAE to supply pipe for a high pressure gas pipeline project.

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