

8th **Steel Success**  
**Strategies** Conference

**Gilles Calis, SteelConsult International**

MENA steel after the financial sandstorm: Is growth shifting to firmer ground?

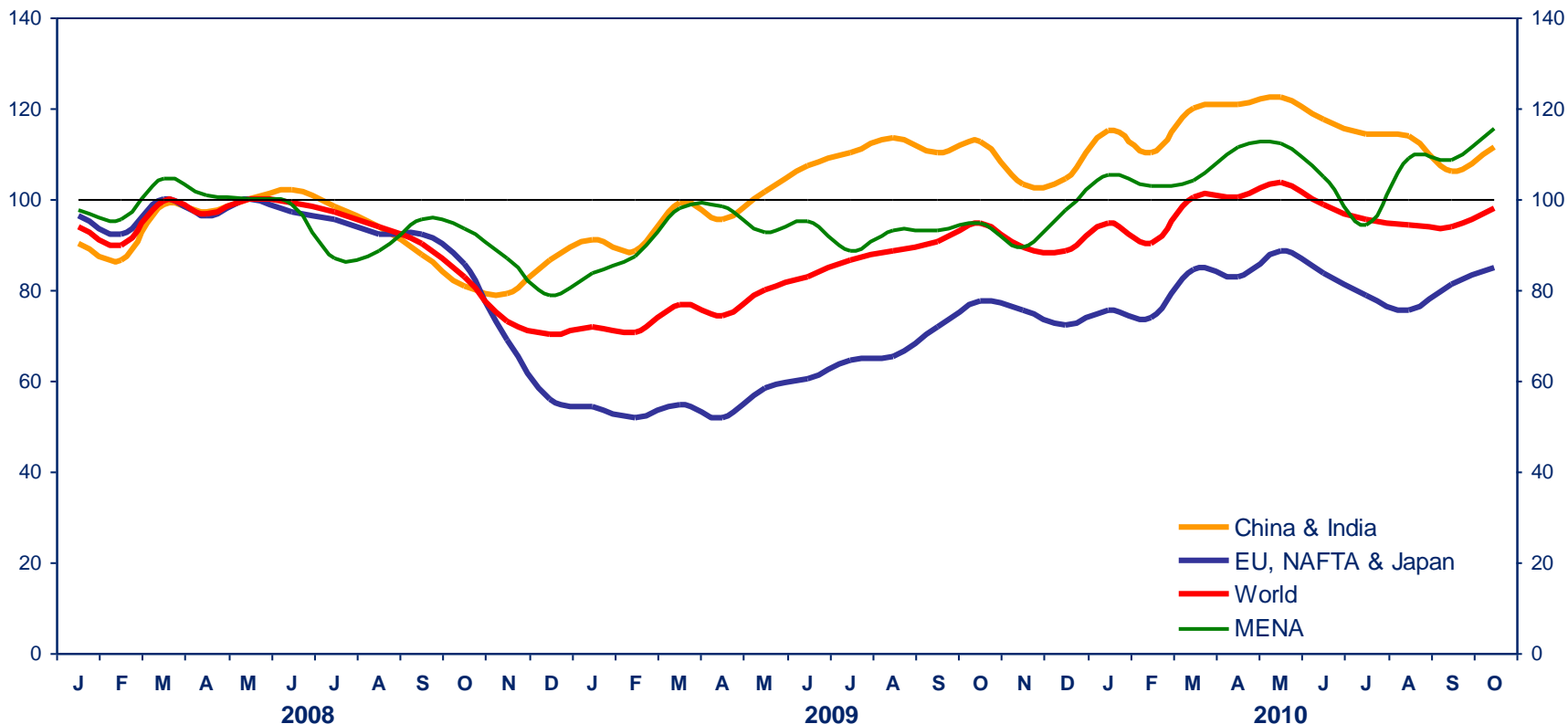
**SteelConsult**  
— International —



# 8th **Steel Success Strategies** Conference

The MENA steel industry has shown resilience during the crisis

Crude steel output, index (May 2008 = 100)



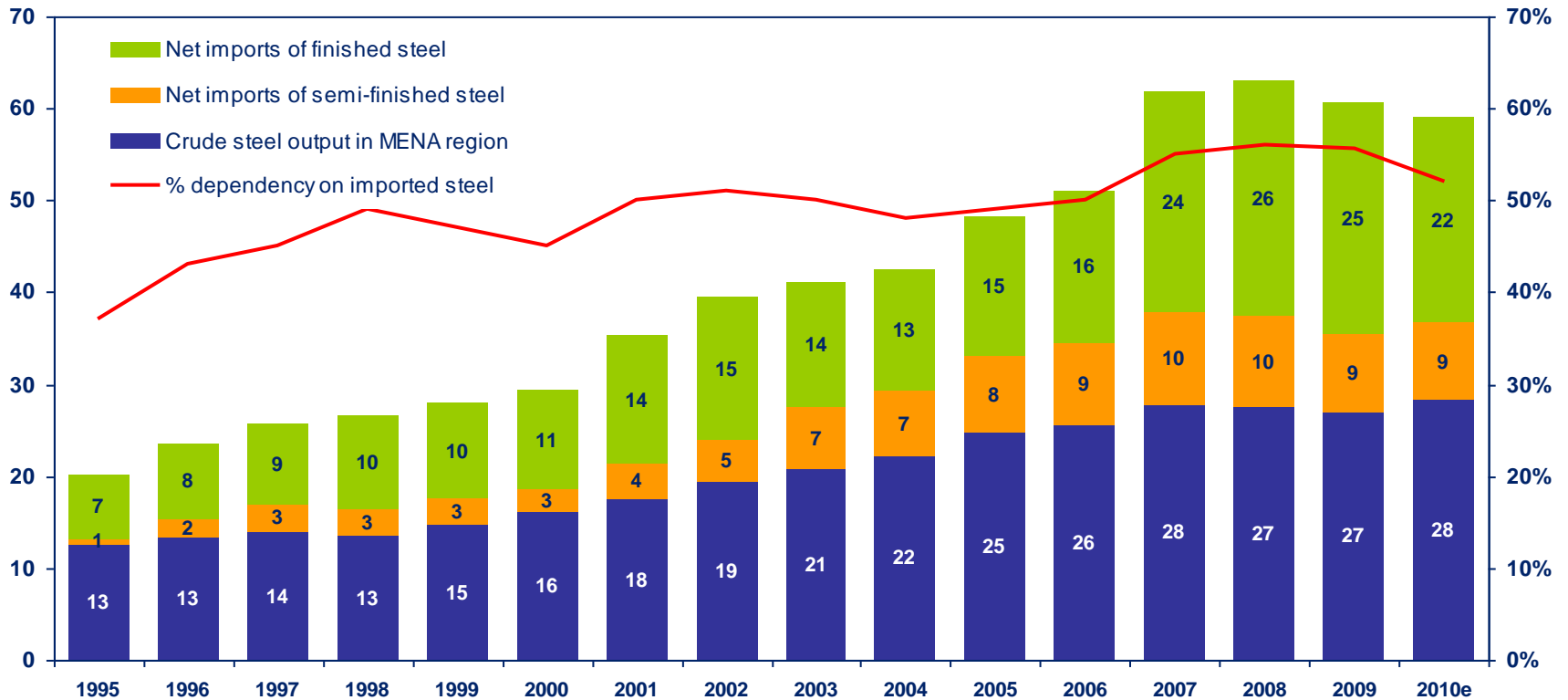
Source: WSA, SteelConsult

# 8th Steel Success Strategies Conference

Steel consumption is expected to decline modestly in 2010, but local production has gained market share from imports

Supply of steel in MENA region by source (m tonnes)

% of steel requirements imported from outside



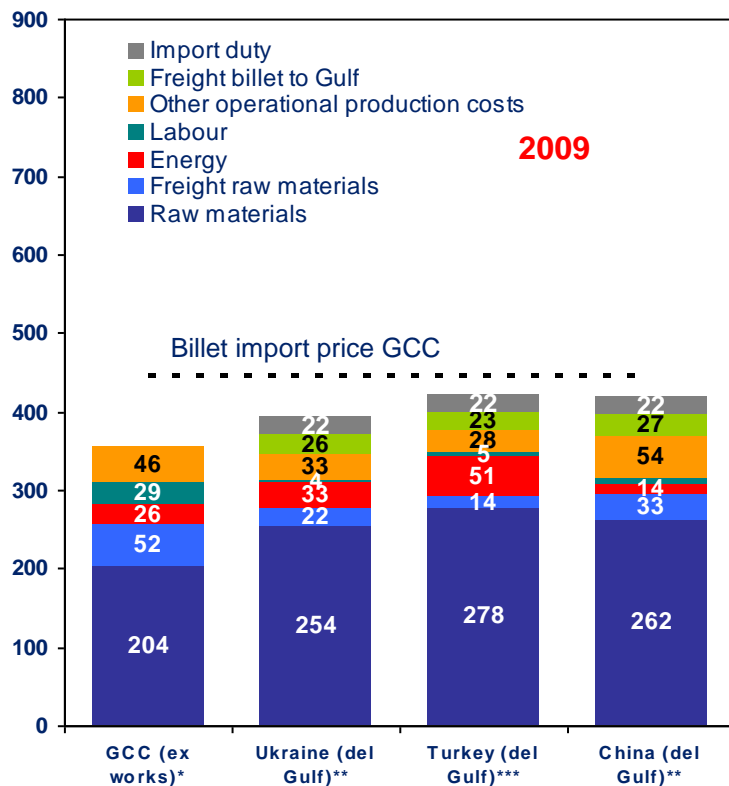
Source: SteelConsult analysis, WSA, UN Steel Statistics, ISSB



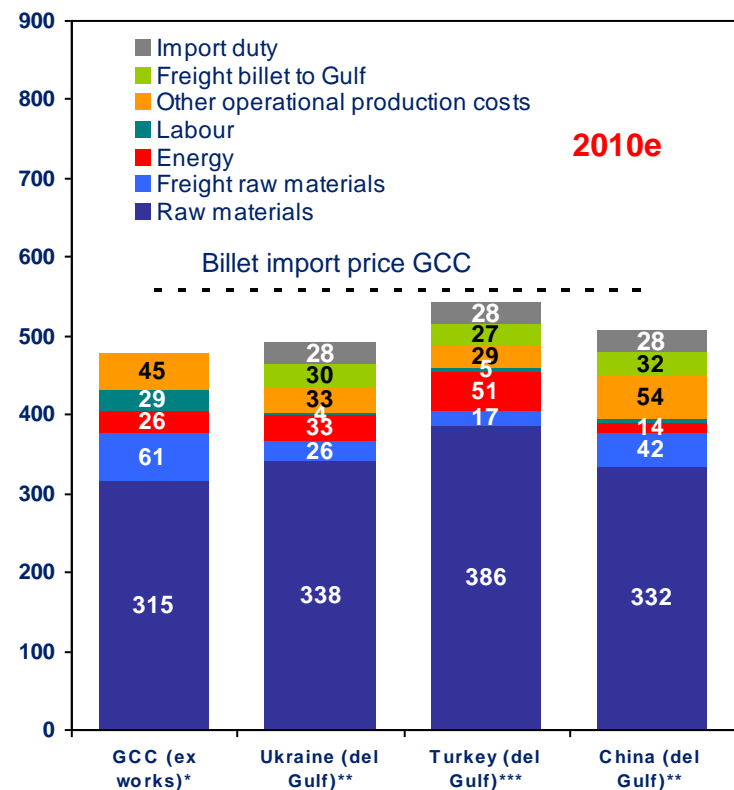
# 8th Steel Success Strategies Conference

Cost competitiveness of GCC mills has weakened in 2010, but import duties have helped

Operational production cost/t billet, US\$/t, 2009



Operational production cost/t billet, US\$/t, 2010e



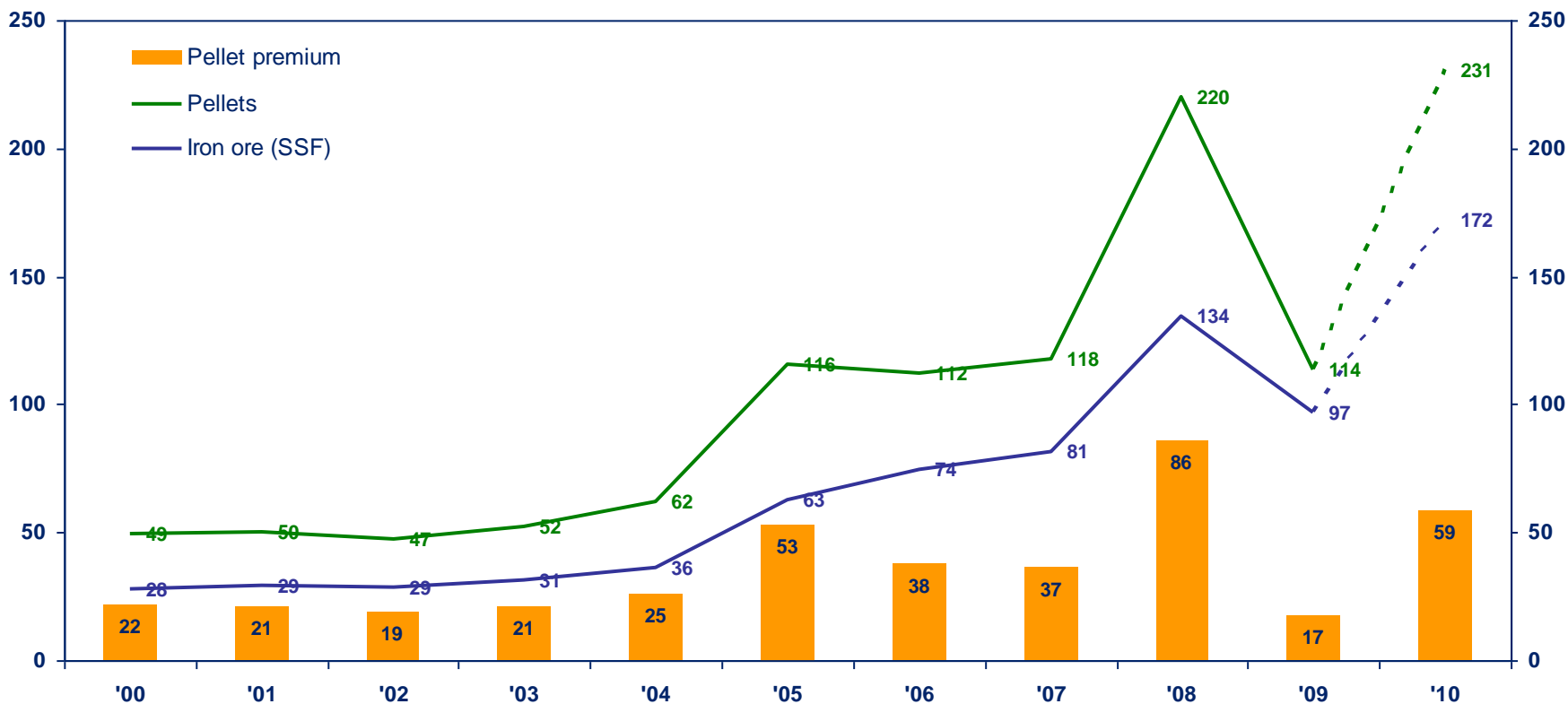
Source: SteelConsult Notes: \*DRI/EAF mill \*\*Integrated mill \*\*\*scrap based EAF  
Note: All data are averages for Calendar Year



# 8th Steel Success Strategies Conference

## MENA mills remain vulnerable to the global pellet premium

Price (US\$/dmtu)



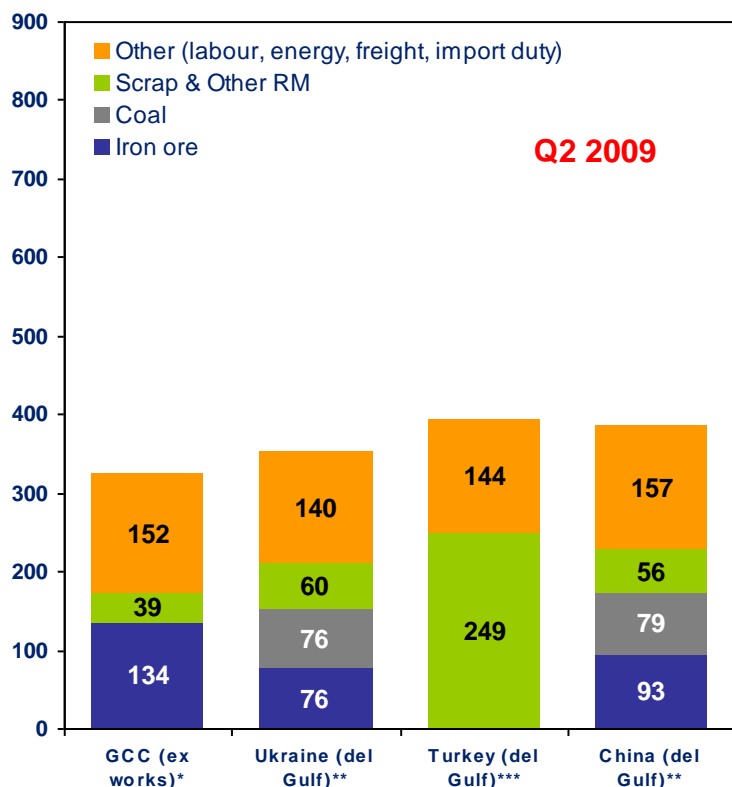
Source: SteelConsult analysis, SBB

Note: Contractual years (April to April) until 2009, average of quarterly prices of Calendar Year for 2010

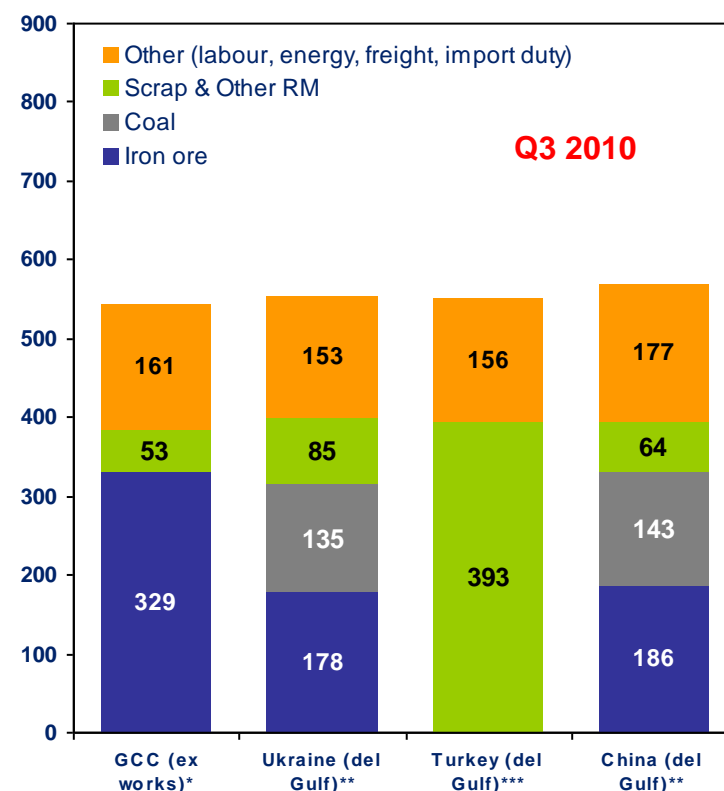
# 8th Steel Success Strategies Conference

Turkish mills have seen a sharp improvement in their competitiveness of late, are we going to see a resumption of exports to the GCC?

Operational production cost/t billet, del GCC, US\$/t, Q2 2009



Operational production cost/t billet, del GCC, US\$/t, Q3 2010



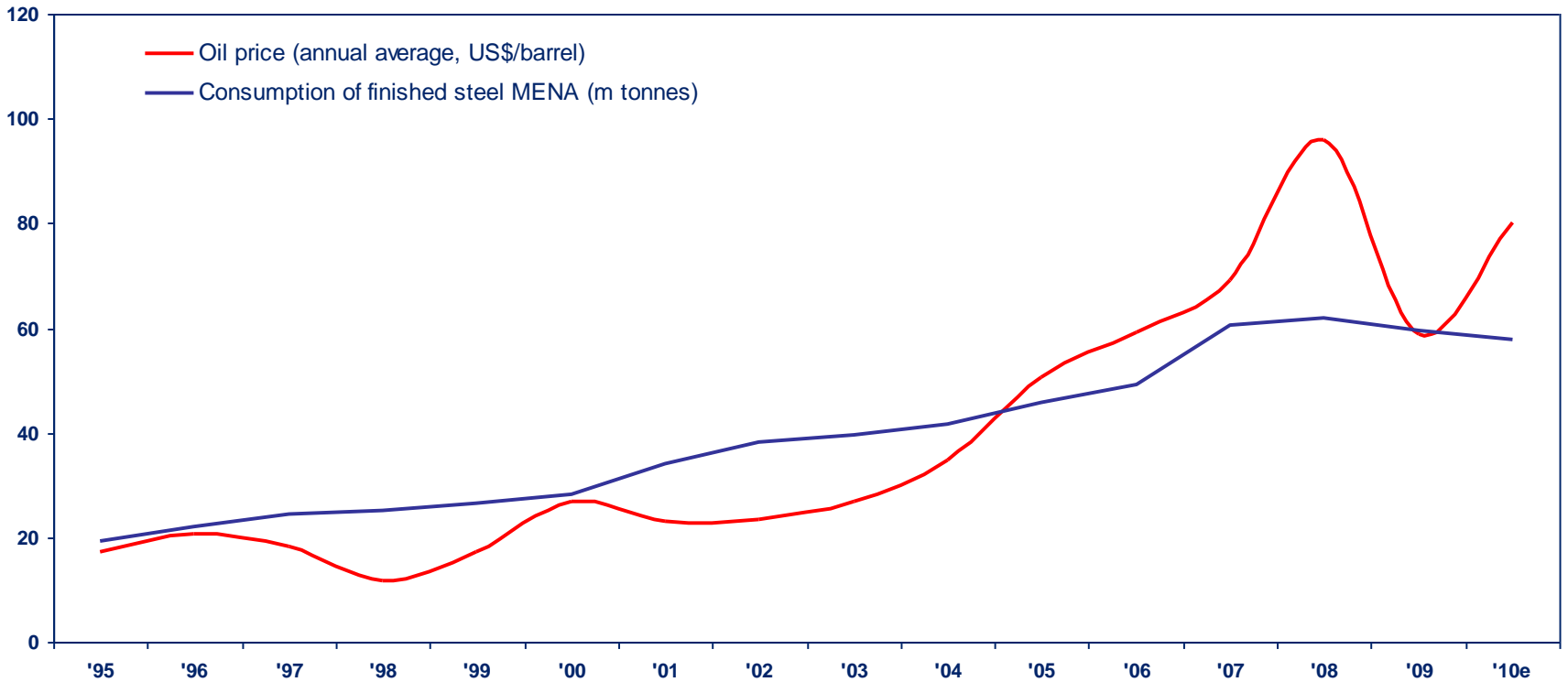
Source: SteelConsult Notes: \*DRI/EAF mill \*\*Integrated mill \*\*\*scrap based EAF



# 8th Steel Success Strategies Conference

The price of oil has bounced back sharply...

Oil price/finished steel consumption



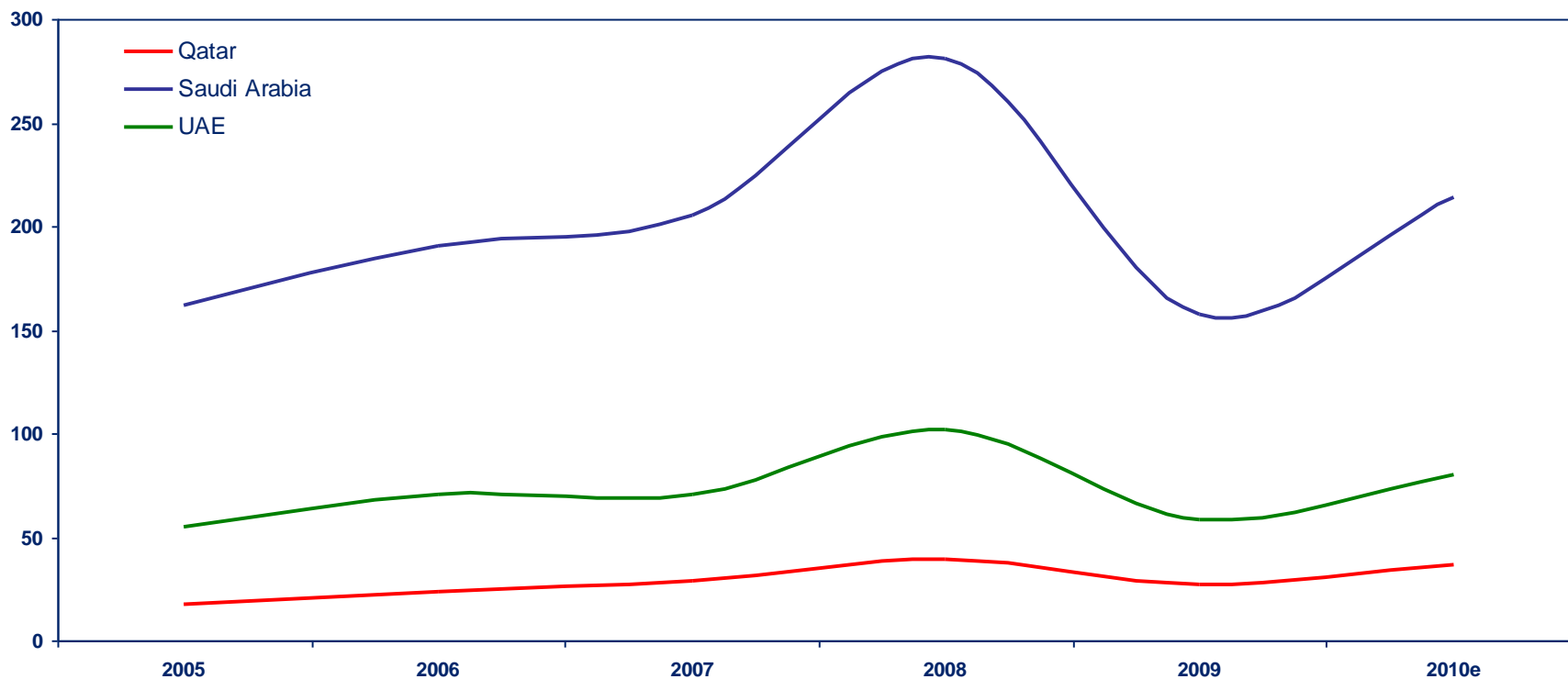
Source: EIA, SteelConsult



# 8th Steel Success Strategies Conference

And oil based revenues in 2010 have climbed back to 2007 levels...

Oil and gas exports (bn US\$)



Source: OPEC

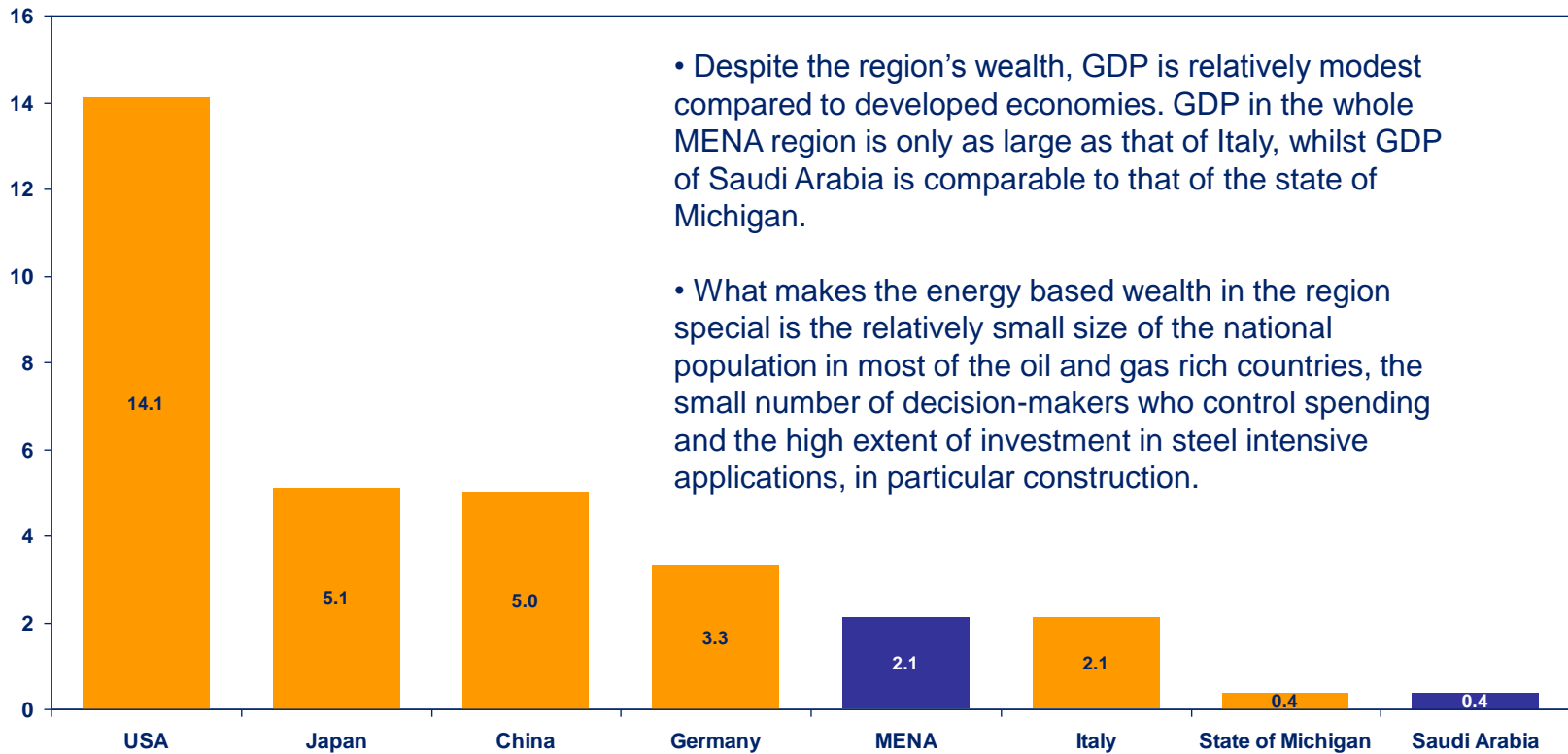




# 8th Steel Success Strategies Conference

Fast decisionmaking has also speeded up recovery...

GDP (trn US\$), 2009



- Despite the region’s wealth, GDP is relatively modest compared to developed economies. GDP in the whole MENA region is only as large as that of Italy, whilst GDP of Saudi Arabia is comparable to that of the state of Michigan.

- What makes the energy based wealth in the region special is the relatively small size of the national population in most of the oil and gas rich countries, the small number of decision-makers who control spending and the high extent of investment in steel intensive applications, in particular construction.

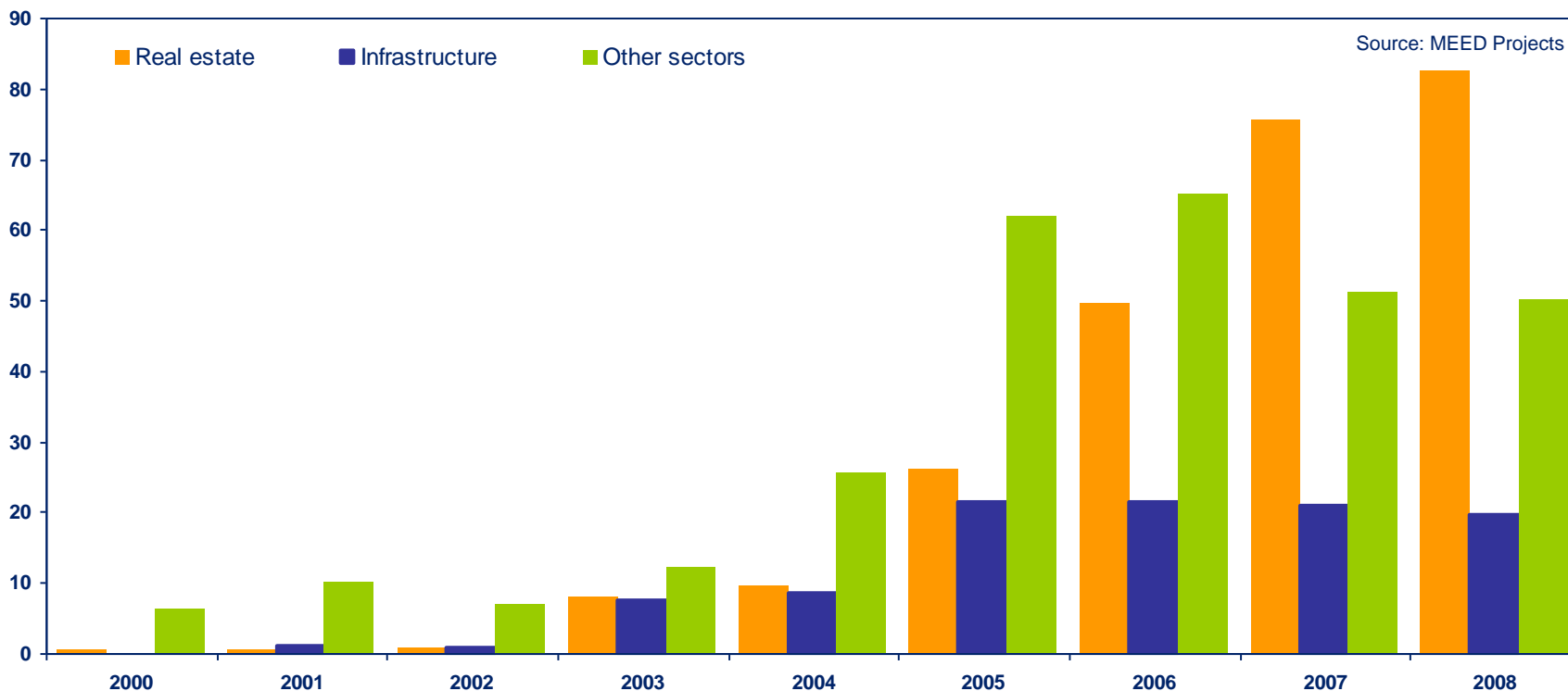
Source: CIA World Fact Book



# 8th **Steel Success Strategies** Conference

Real estate investment, more than infrastructure and other sectors, boosted steel consumption in the boom years...

Spending on capital projects GCC (bn US\$)



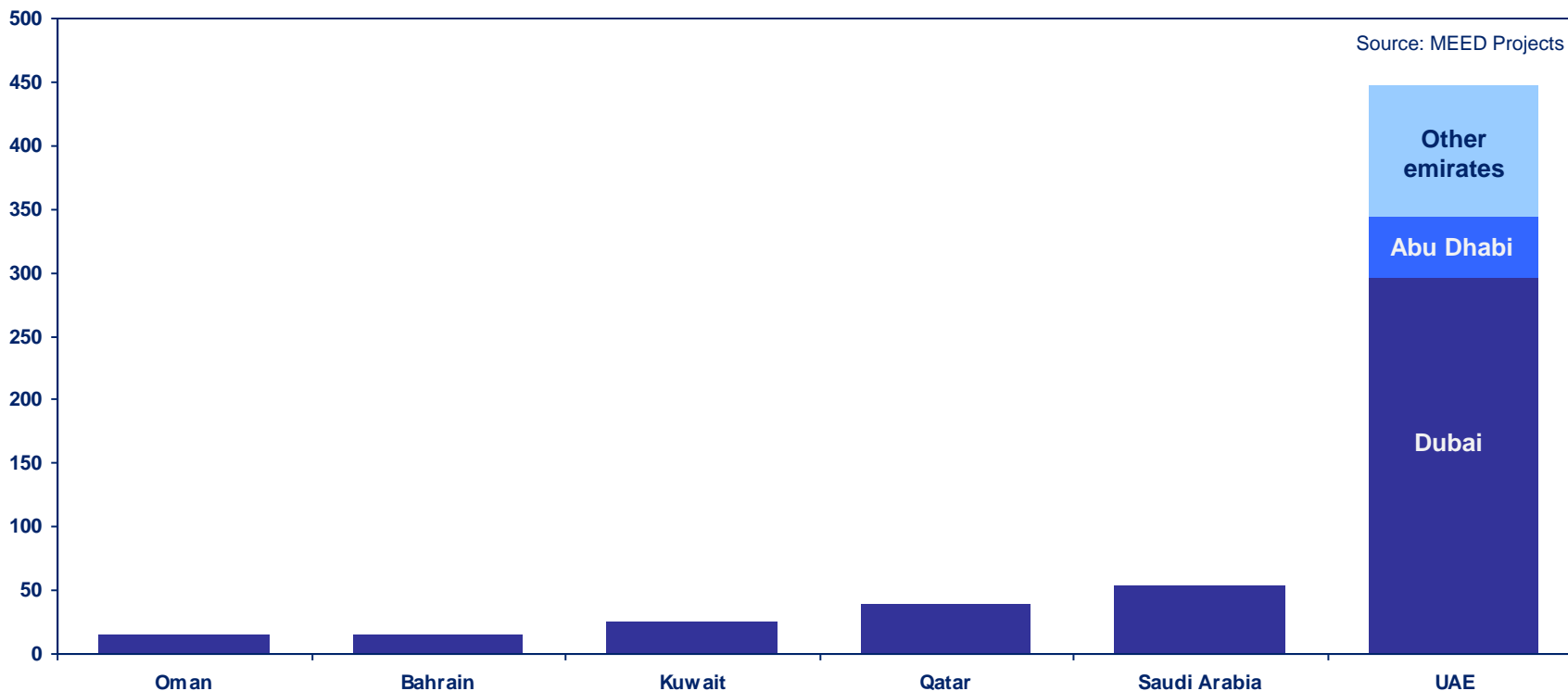
Source: MEED, SteelConsult



# 8th Steel Success Strategies Conference

Part of growth, esp. in Dubai, was based on a speculative bubble. Dubai has indeed been much harder hit than Abu Dhabi and the rest of the region

Capital projects on hold or cancelled (bn US\$)



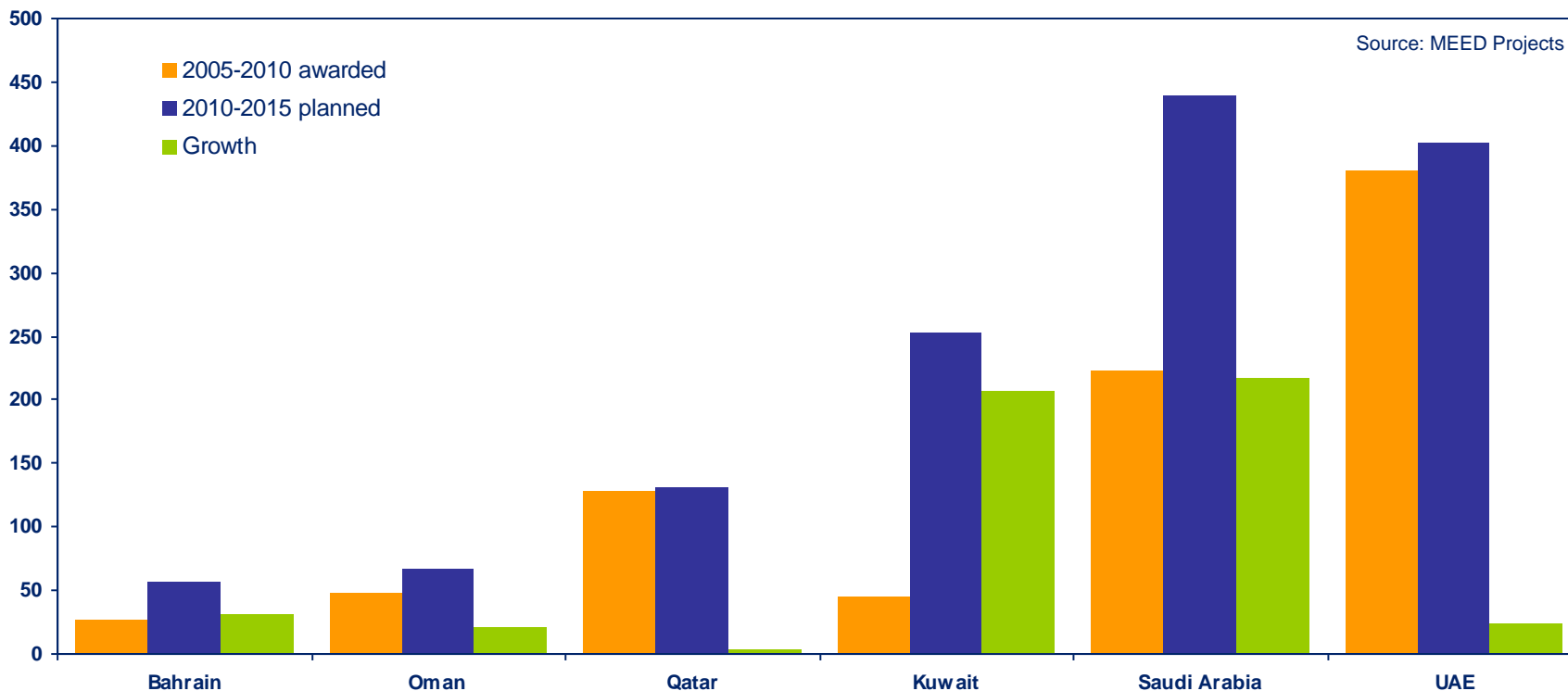
Source: MEED, SteelConsult



# 8th **Steel Success Strategies** Conference

The UAE will remain a substantial market for steel, though growth in the next 5 years will shift away to Saudi Arabia and Kuwait

Capital projects awarded/planned (bn US\$)



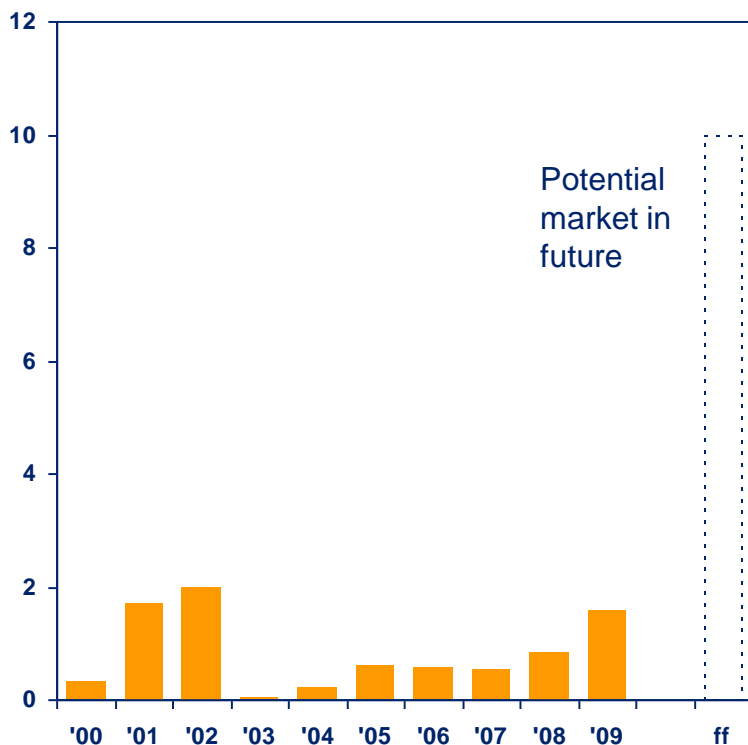
Source: MEED, SteelConsult



# 8th **Steel Success Strategies** Conference

## Longer term opportunity #1: Once stabilized, Iraq has a huge potential for steel consumption growth

Finished steel consumption, Iraq (m tonnes)



Source: SteelConsult

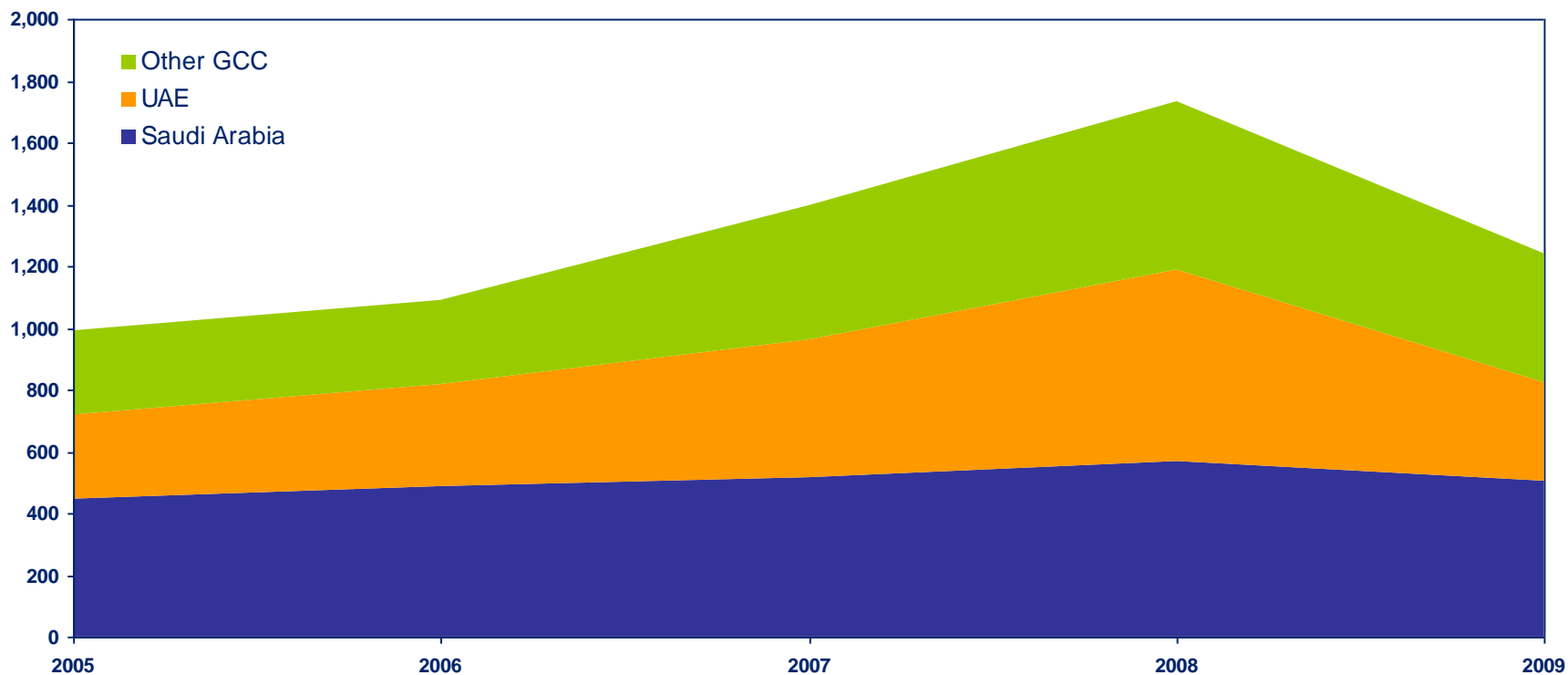
- Iraq has seen steel demand grow fast since 2007, but at 1.5m tonnes of steel in 2009, or 48kg/head, Iraq's consumption is still embryonic.
- If the country stabilizes further, its huge, dormant potential steel market could gradually be unlocked:
  - The country has 31m inhabitants;
  - Decades of underinvestment and violence have left the country in ruins. Huge investments need to be made for the (re)building of infrastructure, industry, utilities and housing;
  - At 115bn barrels, it holds the world's 3<sup>rd</sup> largest reserves of oil, after KSA and Iran.
- ~US\$300bn of existing and future capital projects are planned in Iraq, and the country is expected to see major contracting activity in the next 5-10 years.
- In a stable situation, we estimate steel consumption in Iraq could grow to at least 10m tpy.



# 8th **Steel Success Strategies** Conference

Longer term opportunity #2: The GCC has an opportunity for 4 medium sized car plants in Saudi Arabia and/or the UAE, or >1.2m tpy of auto steel

Car imports GCC ('000 units)



Source: UN Trade Statistics



# 8th **Steel Success Strategies** Conference

## Conclusions

- The MENA steel industry has coped well during the crisis, but remains vulnerable to foreign competition
- Steel consumption in the MENA region has been hit, though the emirate of Dubai is the only part of the region where the market has truly collapsed, as the real estate bubble burst
- Future growth in consumption will be slower, but more sustainable and in line with real demand
- Oil & gas revenues will remain strong, and oil & gas-rich countries will retain an advantage. Whilst steel market fundamentals will continue to be weak in Dubai, growth in the coming years will shift to Saudi Arabia, Kuwait and Abu Dhabi.
- In the longer term, we see two other potential key drivers of growth in the region:
  - The development of Iraq could add another 8.5m tonnes of steel or more to regional demand;
  - The GCC region is importing some 1.2m vehicles per year, presenting an opportunity for diversification and increase of local steel consumption, esp. in higher quality flat steels.