UAE needs a rethink on steel rebar duty exemption

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The UAE is the only country in the GCC allowing cut-and-bend rebar businesses the five per cent duty exemption. The exemption was widely expected to be cancelled back in early 2013, when there were claims that imported rebar was being sold by local traders without any cutting and bending process, despite being imported under duty exemption.

The duty exemption for UAE traders who have cut-and-bend facilities must be cancelled. The UAE is a self-sufficient country for rebar now and there is no need for any imports. So it is necessary to take back that privilege from cut-and-bend traders.

The real pressure is coming from Turkey, the major foreign supplier of the product into the country, which covered around 25 per cent of the UAE's rebar needs in 2014. But buyers are still trying to use China as a price barometer to push for lower prices.

There has only been one rebar lot of 5,000-7,000 tonnes imported from China into the UAE in 2014, despite Chinese material being more attractive in terms of pricing. But as far as rebar quality is concerned, Chinese material is not accepted well by customers.

Steel rebar imports from Turkey was around 800,000-900,000 tonnes in 2014. This is expected to drop as low as 300,000-400,000 tonnes this year. Amid declining imports, local producers are expected to increase their share in the UAE market. Of Conares' rebar output, around 70 per cent is being sold in the UAE, with the remainder going to other GCC countries.

Steel consumption had been expected to reach 4 million tonnes in 2014, but was adjusted to 3.5 million tonnes in October following the drop in oil prices. Steel rebar consumption in the UAE is expected to remain flat at 3.5 million tonnes.

The outlook for steel market for the year generally looks promising, although the latter part of 2014 was slightly affected by the depressed global steel prices. In the last quarter of 2015, we will see demand for steel products coming in regard to the World Expo 2020 requirements. Tenders for infrastructural developments will be issued in the early part of the year.

Demand for steel products in the UAE increased by 15 per cent in 2014 compared to the previous year. The forward indications for this year remain promising as projects continue to be moving on, though there have been concerns on further liquidity.

When it comes to the correlation between oil and steel prices, we are more worried about China and Russia, which are influencing global price trends. There are concerns over further iron ore price declines in China, as well as devaluation of Russia's rouble, which is making exports more of a liability for producers.

UAE's domestic rebar prices are expected to stay on a downward trend in the first-half of 2015. Local traders should be very cautious in the next couple of quarters.

The weekly price assessment for UAE domestic rebar was at Dh1,947 to Dh1,985 per tonne ex-works on December 30, the lowest point since late August 2012. The assessment for imported rebar stood at $500-$505 (Dh1,837-Dh1,855) per tonne CFR on December 30.

Local steel manufacturers are capable of offering globally competitive costs in the UAE, leveraging the steady growth of the construction sector through the announcement of major landmark projects.

Local steel manufacturers should increase production to cater to the current demand, gradually reducing the market share enjoyed by imported steel products. Supply by local players is far better and easier to source.

Dubai's steel market has enough capacity to support the new wave of infrastructure developments planned up to 2020. The technologies and capacity to cater to this requirement immediately are in place and operating.

Also, there is an excess capacity of billet. Producers and traders are struggling to sell. All over the world, semi-finished products from China have been causing trouble.

However, Chinese billet has made little impact on the UAE rebar market. The rebar's feedstock needs high quality. Chinese billet is no more competitive for the UAE market due to the long delivery times of up to 60 days, among other reasons. However, Chinese semi-finished products still influence pricing.