



Oil Price Weighs on Steel Demand in MENA Region

- MOHAMED LAID LACHGAR

The Secretary General of Arab Iron and Steel Union, Mohamed Laid Lachgar held many important portfolios and was the minister plenipotentiary in the Ministry of Foreign Affairs. He has also been the General Director of the Metal Structures' National Company.

He is currently working as the Secretary General of the Arab Iron and Steel Union (Arab Organization), headquarter in Algeria. He holds a license in Law.

Speaking to **Sanjay Singh, Associate Editor of Steelworld, Mohamed Laid Lachgar** emphasized that dumping of steel has affected the viability of steel companies in the Mena region. Arab countries have a long way to reach the level of US, EU or India at the speed of taking actions and imposing fees. Excerpts



Can you briefly describe the Middle East Steel Sector and the challenges it faces?

- In this question my answer will be limited only to the position of steel industry in the Arab countries because the circumstances that confront the Arab Steel industry are different from other circumstances which confront the steel industry outside the Arab region.

If we look at the steel sector in the Arab countries, both in the Gulf region and in North Africa, we find that the steel industry has spread in most of the Arab countries at the beginning of this millennium, by using the latest technologies of steel production, both in the integrated factories which use the technology of DRI and the Electric

melting furnace and in half integrated factory.

The reason behind the spread of steel industry in the Arab countries at that time is the rising of oil prices accompanied with the elevation in the growth rates, and the growing volume of investments in the projects of infrastructures, constructions and reconstructions, the result was in the increasing rates of steel demand.

The production capacity of steel in the Arab world is about 41.5 million tons from different steel products, which are distributed as follows:

- 23.8 million tons in the Gulf Region
- 17.7 million tons in the Arab countries in North Africa

The average of the efficient utilization of the available production



capacity of steel production in the Arab countries is ranging between 65%- 75% and this is because of the challenges that confront the Arabic steel industry.

The steel industry in the Middle East is suffering from dumping from countries like China, Ukraine and Turkey. What steps are the government of these countries taking to tackle this problem ?

- As we all know, dumping has become an international phenomena. Most of the world countries are suffering from dumping. At the beginning of this millennium, and because of the big investments, Arab countries needed to import huge amount of steel to cover the gap between demand and supply.

This is very normal in all world countries to continue the march of development projects in any country, as long as there was a gap between demand and supply, but the problem will appear if the volume of the imports were more than needed because of the low prices and the importers will to earn more money.

This is what is happening now, and this directly affected the local companies' part in its markets. During the first decades of this millennium, both Turkey and Ukraine were covering the largest share of the Arab countries needs of various steel products.

But China started to arise strongly in the Arabic markets, and its exports climbed steadily from 2% in 2014 to 7% in 2015 as the Arabic markets were targeted by the

Chinese steel products during 2014, 2015 and 2016.

Countries like India, US, European Union and others have taken steps to protect their domestic steel sector. What initiative has the government of Middle East region taken to protect their steel industries ?

- Arab countries have a long way to reach the level of US, EU or India at the speed of taking actions and imposing fees. US impose fees on the various imported steel especially from China and it reduced the volume of the Chinese imports into the US markets last year, the action allowed opportunity for the recovery of local steel industry in the US and EU.

Governments in the Arab countries started to take actions but individually, each

country takes steps to protect its local steel industry. Governments in the Gulf and North Africa region started to connect with the systems in charge of dumping to protect its steel industry.

Some of the steps taken that have been taken are determining the limits of the imports of special kinds of steel, determining an exact quantity of imported steel products, and defining the minimum imported steel price.

In general the Arabic Steel industry still needs more protection to continue its march.

How much influence has the price of oil affected the steel industries as infrastructure, the biggest consumer of steel, is not happening in a big way ?

- Absolutely, the financial surplus in the Arab countries in the Gulf Region since the first mid-twenties of this millennium till 2013, resulting from the rising prices of oil, helped in the growth of the development projects such as the infrastructure and construction and reconstruction projects. The other projects that benefited were transport, railways and cities projects.

All these projects lead to increase in the growth rates and rising demand for steel in conjunction with the rise in price of oil at that time which encouraged the investors to do a lot of new projects for iron and steel.

To cover the gap between demand and supply, at the beginning of 2014 the oil prices fell resulting in the reduction of investments volume in most of the oil-producing



countries, which resulted in the reordering of priorities to maintain acceptable rates of development.

So you can see the major reason is the reduction of oil prices which reduced the steel demand.

In your opinion many steel mills in the Middle East and Africa region are not going global as most of them cater to the local market or exports. Do you feel that it is a right time for them to acquire big projects as the steel demand will grow in the coming decade ?

- If we look at the chronology of steel industry we will notice that it experienced these phases:

(1) In the middle of the last century, it was small rolling units widespread in the Arab countries especially in Egypt and small smelting furnaces with capacity which did not exceed 20 tons and the annual production for these units did not cross 100,000 tons.

(2) The beginning of the appearance of the integrated steel factories which use the Blast Furnaces Technology in Egypt, Tunisia and Algeria, the production of these factories have dropped, because it did not exceed 40% of its production capacity and become not fit with the modern technology.

(3) This phase has witnessed a revival in the steel industry after the appearance of the integrated factories with the DRI Technology and electric smelting furnaces with ability beyond 100,000 tons in most Arab countries, in Gulf region and some of the countries in North Africa (Egypt, Libya and Algeria).

These factories lifespan did not exceed 15 years, but with capacity beyond million tons per year and sometimes, crossing 3 million tons per year, these factories provide different types of steel products which are needed for huge projects set up by the Arabic Governments.

So the Arab steel factories have entered into an advanced situation to cover the needs of the development projects during the coming years.

The Arab Iron and Steel Union is taking lots of effort to focus the problems of the steel mills. How



much are the authorities responding to your demands ?

- Absolutely, the Arab steel industry have problems which differ from country to country such as dumping issues, and the shortage in the energy needed for production to run some steel factories at full capacity.

Some Arab countries also suffer from deficient energy such as the natural gas to run the DRI at its full capacity coupled with the

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unavailability of foreign currencies to import raw materials. Besides, there are problems about low prices of the imported product compared with the local price, for the same product, which encourages more importing.

Also, the economy's slowdown in some Arab countries, which caused the reduction of steel demand, all these problems are taken up for discussion in the board meetings.

There are decisions related to the way of

dealing with these difficulties, and the government is aware of these difficulties. Each side tries to find a solution to resolve the crisis.

Do you see a revival or golden days coming back for the steel industries in the Middle East and North Africa coming in a few years time ?

- Definitely, there are economic cycles repeated every several years. We can't forget the economic cycle which occurred in 1998 till 2001, and the other cycle in 2008 till 2010 and the latest cycle which occurred in 2014 and its effects still continues but with less damage.

In my opinion, starting from 2018 the economic revival will return and the growing rates will increase and each country will try to make up for the loss by more investments. The steel demand will rise, and it is expected that Iran and India will dominate the export market.

During the coming years, it is expected that there will not be new investments in steel industry at least for two years, till the picture is complete for investors about the markets and steel trade in both the Arab world and internationally.

All these expectations are built on the current actions at the Arab, global and regional level, in addition to China which continues to reduce its production capacity of steel by about 100 – 150 million tons till 2020.