

# **Arab Iron and Steel Union**

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## **A Quick Look on the Steel Industry in the Arab World**

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## **Introduction :**

At the time during which the world market saw in the past two years a state of recession in the construction and building sector because of the repercussions of the global crisis, the reverse has exactly taken place in the Arab region. There was an increasing activity in the major construction, infrastructure and housing projects in addition to the fact that the expansion projects plans linked to the iron and steel industry and the other associated investment projects had continued as already planned for them.

In 2009 production of the crude steel in the Arab countries amounted to 16 million tons. In 2010, this production amounted to about 19 million tons. It is expected that the crude steel production in 2011 will exceed about 20 million tons. It is also anticipated the Arab countries will be able to produce 25 million tons of crude steel in 2014 after completion of the planned projects in many Arab countries.

The demand volume for the finished steel products in 2010 amounted to about 35 million tons. The demand volume for steel products will reach about 60 million tons in 2014. The volume of the demand for steel products is expected to exceed 70 million tons in 2015 of finished steel products.

The share of the Arab countries of iron and steel products at the world level is still poor and does not exceed 1.7% of the volume of the world steel production. After completion of the new expansion projects by the end of 2014, the share of the Arab countries of steel production will reach about 2% of the volume of the world production, meaning that the Arab countries need more investment in this industry and the associated industries.

## **The Factors Affecting the Iron and Steel Prices in the Arab Region**

There is a group of factors linked to the volatility of the prices of steel products in the Arab region of which are the following :

1. The high prices of the inputs of this industry ( iron ore, scrap, various alloys )
2. The high energy prices ( oil, electricity, coal)
3. The high freight rates.
4. The supply and demand factors.
5. The speculation over the iron and steel products.
6. Monopolization of steel production in some Arab markets.

**These factors are divided into two parts :**

**Firstly : Before the Global Economic Crisis ( due to the increasing demand for steel products).**

**Secondly : After the Global Economic Crisis ( due to the high prices of iron ore)**

### **A. Before the Global Economic Crisis :**

**The rise of the steel prices in the Arab region is linked to the increasing demand for the steel products associated with the rise of oil prices.**

**There is a close link between the previous group of factors affecting the prices of the finished steel products, but there are, however, some important notes to which I would like to refer about the presence of a diametrical relation in the Arab region between the rise of the oil prices which leads to an increase in the monetary surpluses of the oil exporting companies resulting from the sales earnings which encourage the Arab governments in those countries to increase the investments to be directed to the infrastructure, housing, reconstruction, and the major national projects which lead to a huge economic recovery and boost the demand for the iron and steel products, respectively their prices. This took place during 2007 as well as during the first half of 2008. This was associated with the rise of the oil prices which amounted to approximately 150 dollars with a parallel continued high steel prices reaching approximately 1500 dollars per ton in some Arab markets.**

**The increased demand for steel was the biggest factor which affected its prices in the Arab region at that time, and was greatly linked to the rise of oil prices. This was supported by the unprecedented reconstruction boom witnessed in China in the recent years as well as the increased demand for steel products in China.**

**With the sharp fall of the oil prices by the end of the third quarter of 2008 when the price of an oil barrel reached 50 dollars after it had been 150 dollars in the middle of 2008 under the presence of a global economic crisis and economic recession causing a fall of the demand for steel products worldwide. The prices of these products in the fourth**

quarter of 2008 fell to below half of the prices which were current in the third quarter of the same year.

Thus, the supply and demand factors were the factors which affected the steel prices more than any other factors linked to setting the steel prices.

## **B. After the Global Economic Crisis :**

The rise of the steel prices in the Arab region was linked to the rise of the iron ore prices. Until the end of 2008 the ore prices did not come into the spotlight as a factor affecting setting the prices of the steel products, but what happened in the steel markets as a result of the global economic crisis during the fourth quarter of 2008?

- The oil prices fell below half of its price during the fourth quarter of 2008.
- The demand for steel products declined, in particular the demand for flat products because 70% of the flat products production in the Arab countries is directed for export. The world demand for the flat products also declined and caused the stoppage of a number of production lines in a number of Arab companies.
- Also the world steel production declined in 2009 to approximately 1.2 billion tons after it had exceeded 1.3 billion tons in 2008.
- The steel production in some countries was not affected in 2009 and 2010 by the global economic crisis, such as China, India and some countries in the Gulf region having high monetary surpluses such as Saudi Arabia. Production in these countries, on contrary, increased compared to previous years. Despite the global economic crisis, production of the Asian countries of steel rose from 747.6 million tons in 2008 up to 788.330 million tons in 2009. In 2010, production of these countries amounted to 881.2 million tons. China was the biggest steel producer worldwide.
- China's consumption of iron ore increased, and it became to produce more than half of the world steel production.
- China accounted for the biggest proportion of the world iron ore production which in 2009 amounted to about 568 million tons and to about 628 million tons in 2010.

- **Before 2008 the iron ore producing companies in Australia and Brazil were not major players to set the ore prices. They constantly watched the rise of the prices of the iron and steel products during 2007 – 2008. During that period these companies have rearranged their papers after the rise of demand for the iron ore from China and they wanted to have a bigger share in the huge profits achieved by the steel producers by rising the prices of their iron ore production, but they were surprised by the sharp fall of the steel prices by the end of 2008 due to the global economic crisis. This unexpected fall did not help them to rise the iron ore prices in 2009. With the emergence of improvement signs in the steel prices by the end of 2009 early 2010 the iron ore producers notified their clients of revising the iron ore prices to offset a part of the losses incurred by them in the past years.**
- **So, as from 2010 and with the increasing demand for the iron ore from China the iron ore producers became an influential player to set the final prices of the steel products.**

### **The Size of the Impact of Iron Ore Prices on the Prices of the Finished Steel Products**

**The increasing demand for iron ore drove its prices up and this was reflected on the prices of the finished steel products in the Arab countries for the following reasons :**

- **The input of steel production cost accounts 70% of the production cost of every ton of steel.**
- **Producing one ton of steel requires 1.6 tons of iron ore.**

- **The rise of the iron ore prices by 100% means a rise in the steel billets prices by 40%.**
- **Any increase in the iron ore prices has become reflected directly on the final prices of the steel products.**
- **The Brazilian Vale is the largest iron ore producer in the world and both the Australian BHP Biliton and Rio Tinto are the second and third largest iron ore producers in the world. The production volume of these three companies accounts for nearly 70% of the world iron ore production. These three companies have the ability to control the iron ore price worldwide in such a manner as to achieve the highest profits.**

### **The increasing demand for iron ore in China**

#### **pushed the iron ore prices up**

**The steel production in China has accelerated and, consequently, the increasing demand for the iron ore was a factor affecting the rise of its price:**

- **Before the global economic crisis China's consumption of iron ore did not exceed 30% of the volume of the world consumption.**
- **Before the global crisis the volume of China's production of finished steel products was about one third of the world production.**
- **The volume of China's production of the finished steel products has developed in an accelerating manner. China's production exceeded more than half of the world steel production as from 2009.**
- **In 2009, China's production amounted to 568 million tons. In 2010, the volume of production amounted to about 628 million tons. China has achieved a record figure in the average daily production in 2011 which amounted to about 1.93 million tons.**

- This has strongly pushed up the demand for iron ore in China. China bought about 65% of the world production of the seaborne iron ore during 2010.
- It is worth mentioning that the volume of China's seaborne iron ore imports during 2000 did not exceed 16% of the world iron ore production.
- For the first time in 2010 the world witnessed a rise in the quantity of the seaborne iron ore which exceeded one billion tons with an increase of 14% over 2009 as a result of the unprecedented rising demand for iron ore.

### **The strategy of the mining companies after the rising demand for iron ore**

The strategy of the mining companies after the rising demand for iron ore worldwide :

- Contracting on the prices of iron ore until 2009 was being made between China and the iron ore producers in both Australia and Brazil on annual contracts basis according to benchmarking prices by which the export prices for the rest of the world are set. The average price of iron ore to China was 62 dollars per ton.
- When China was negotiating purchasing during 2010 the iron ore miners requested an increase of 100% of the contracted prices in 2009 so that the long-term contract prices came close to the spot selling prices amounting to 130 dollars per ton.
- Markets have witnessed the collapse of the pricing mechanism as from the second half of 2010. The iron ore producers requested to shift the annual contracts into quarterly contracts after long years reaching

more than 30 years doing business with annual contracts. Also the miners began to set their prices by dealing in the spot price contracts, which directly affected the iron ore prices, respectively the prices of the steel finished products.

- The iron ore producers could also impose their prices on the markets because of the demand growth for the iron ore worldwide and because there was no possibility to discuss them.
- This has pushed up the steel production costs but not only because of the supply and demand factors for the steel products this time but also because of the rising prices of ores the world over.
- Monopolization of the iron ore production by the Brazilian and Australian companies has helped them to have the ability to change their prices in such a manner as to achieve the maximum profits in the short term under an uncompetitive iron ore market.
- The Arab Iron and Steel Union expects the iron ore prices to continue rising during the second half of 2011 because of the increasing demand for iron ore, but if China's volume of imports of iron ore goes down and its dependence on the local production grows ever more and if it diversifies its sources of supply of the iron ore as to get it from other countries such as Ukraine, India and South Africa, this will limit the continued rising of iron ore prices, even though it is expected that China will reduce the volume of its imports of iron ore by 14% as already announced by the concerned authorities in China.
- It is notable that the iron ore prices have become unstable and these prices are set monthly after they have been set annually, which has created a state of uncertainty in the price trends taking a growing form and the change has come to be effected in an accelerating way.

- **The steel manufacturers have pointed out that increasing the iron ore prices by 100% in 2010 on the prices prevailing during 2009 does not reflect the reality of the iron ore prices. This led the Federation of Iron and Steel Manufacturers in the European Union to file a complaint with European Competition Protection Office about the presence of uncompetitive practices and exploitation of the control position of the iron ore suppliers by the three companies which control almost 70% of the world production. This may affect the recovery of the world economy and make the European consumer to afford the increased costs of many consumer commodities, especially that the steel consumption accounts for approximately 85% of the world consumption of metals.**

### **The Arab Iron and Steel Union's Future View on the Iron Ore and the Impact thereof on the Arab Steel Industry**

**The view of the Arab Iron and Steel Union on the supply of the requirements of the Arab companies of iron ore is, as we already said, as follows :**

- **There is an interchangeable relation between the rise of the oil prices and the rise of demand for the steel products in the Arab countries.**
- **There is a growing demand for the steel products in the Arab countries of 7% per year. The Arab countries rank the third next to China and India in the growth rate of demand for the steel products.**
- **The Arab countries import nearly 25 million tons of iron ore pellets per year.**
- **The Arab Iron and Steel Union is discussing with Union's member companies the question of setting up a company to invest in the field of iron ore as this ore is available in most of the Arab countries, in**

**Particular Mauritania the production of which amounts to 12 million tons per year and is directed for export.**

- **There are also several Arab countries which have promising potentialities of the availability of the iron ore in them. Africa is of a special position as their lands contain a lot of reserves to produce the iron ore. There is a mining survey indicating that the reserve of Africa of iron ore accounts for about 12% of the world reserve ( of this ore). South Africa is of a special position because it has enormous reserves of iron ore in proportion to what the world has of such ores and they account for 5% of the world reserve, in addition to a number of the countries of West Africa such as Nigeria and Senegal which have a great proportion of iron ore.**
- **As for the Arab countries in North Africa, Mauritania, as we said before, Libya, Algeria, Egypt, Tunisia and Morocco have iron ore reserves. Besides, the Arab countries in the Gulf region, such as Saudi Arabia and Yemen also have reserves of iron ore.**
- **The Arab Iron and Steel Union along with the member companies endeavor to increase the Arab investments in the research and exploration of the iron ore within and without the Arab homeland to support and secure the requirements of the Arab steel industry of iron ore in the future.**
- **The ability of producers to set the prices of their products in the Arab countries has greatly diminished because the prices of their products are linked to other factors beyond the control of producers at the moment, especially that the ups and downs of the prices of the iron and steel products are closely linked to the prices of the inputs of this industry and those of the iron ore.**

- **The change of the prices of the steel products is now effected in an accelerating manner. The change of the steel prices in the past contracts used to take place annually and by several dollars while now it is being effected in an accelerating manner. Sometimes the change takes place weekly and not monthly, which makes it difficult to make medium-term investment decisions.**
- **The major steelmakers in the Arab countries are now bound to study the possibility of investing in the mining activities and take advantage of the available potentialities of the availability of the iron ore in the Arab and African countries.**

**THANK YOU FOR YOUR ATTENTION**