Metal Expert

SIIS: MENA steelmakers unable to benefit from demand growth without backward integration

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Key GCC producers continue to take steps to maintain business efficiency and raise competitiveness, being supported by the higher income from the hydrocarbon sector. The upward integration of the production chain is one of the measures helping cope with high costs. Top CEOs exchanged their opinions and practical cases on how to overcome the issues during the session moderated by Metal Expert as part of the 2nd Saudi International Iron and Steel Conference (SIIS) held last week in Riyadh.

The development of high-value-added steel products is the ultimate goal of the key players in the GCC steel sector. In Saudi Arabia alone, around 6.2 million t of new capacity for a total cost of SAR 35 billion ($9.3 billion; $1 = SAR 3.75) will be launched in the next few years to provide the local industries with new steel products. This development is mainly explained by the anticipation of the consumption increase. The global high-strength steel market size was $31.03 billion in 2019 and is projected to reach $54.07 billion by 2027, exhibiting a compound annual growth rate of 7.4% in the forecast period. “Value-added steel or special grade steel is used in segments like power, ship, metro, defence, auto you name it. Currently, regional demand is fulfilled by imports only,” a panellist said.

Despite the optimistic outlook and expected market growth, there are a lot of obstacles on the way. High production cost is one of the major challenges. “I had a lot of meetings and everyone talked about the cost and how important it was. Also, as to how to fulfil domestic iron and steel void. From my experience, we cannot move further as around 48% of the production cost goes to iron ore,” another panellist mentioned.

This fact forced the top CEOs to take decisive actions, which are supposed to ease the brunt. Saudi Iron and Steel Company (Hadeed SABIC) is among the pioneers in the GCC countries, who has been investing in its own iron ore project abroad, specifically in Mauritania, for the last few years. “This project is sufficient for a set period of 15 to 20 years for our current consumption. We are starting a bankable feasibility study will prove that it is still feasible, because exploration requires a lot of investments. In 11-12 months we will have positive results,” Salah Ansari, the company’s president, said.

Emirates Steel Arkan is following a strategy similar to its Saudi counterpart, eyeing the investment in Mauritanian assets. Although the company have several options for upward integration, the mentioned initiative is one of the most important taking into account the growing global demand for high-quality pellets and scrap, specifically in view of decarbonisation efforts. “Securing of iron ore feedstock is the most important move for the industry in terms of production costs. We will see a lack of DR-grade iron ore. For investments in the steel sector, we have scrap and EAFs, hydrogen and DRI technology… Scrap supply is scarce, while hydrogen is far away,” Saeed Al Remeithi, CEO of Emirates Steel Arkan, mentioned.

Bahrain's steel giant, Fouladh Holding, chose another strategy to solve the problem. “We are the most integrated steel producer in the region, but still feel need in iron ore feedstock for pellet production… We do this by entering into strategic buying options with many companies. Of the short-term and long-term suppliers, we are proud of our relationship with Anglo American and its strategic bounties. They cooperate with our team in finding raw materials from the different parts of the world,” Meshary Al-Judaimi, the Chairman of the Board of Foulath Holding, Bahrain Steel, commented.

Algeria defined its strategy as well. “The availability of raw materials became an obvious consequence of supply chain disruptions, pushing steelmakers to work harder on looking for long-term solutions in this field. Algerian’s steel master plan, defines the strategic targets for the country’s iron and steel industry. Until 2025 the crude steel and DRI volume are set to reach 12 and 15 million tpy, while iron ore pellets and concentrate – 23.25 million tpy and 25.80 million tpy respectively,” Yousef Al-Muhannadi, CEO of Algerian Qatari Steel, said.

In view of such developments, the future of raw materials could be the MENA region. First of all, the local steel markets here have never been as commercially significant as they are today with the huge investments planned both in the iron ore and steel industries. Moreover, the current disruptions in the global supply chain forced the mills to think more precisely about raw materials availability, Metal Expert learnt.