Steel manufacturers in the UAE have been faced with slowdowns in domestic demand in recent times, as real estate and infrastructure projects have tapered off. At the same time, protectionism has been choking overseas markets for these firms while domestic authorities have been reluctant to retaliate, leaving metals manufacturers on a very un-even playing field. While companies see a strategy of diversification and specialisation as one response, along with developing more vertically integrated international supply chains, the sector’s plight raises some important – and difficult – policy questions for market authorities and governments.

Gulf Monitor | Jonathan Gorvett | UAE Steel Industry

Recent years have been tough ones for the global steel sector, with the UAE’s own steel producers also feeling the squeeze.

Principally, this has been due to a slowdown in the main sector of demand – construction – which is responsible for some 51% of all global steel consumption, according to World Steel Association (WSA) data.[1]

Indeed, the Steel-Weighted Industrial Production (SWIP) index, which tracks changes in the aggregate value of steel consumption in the most important end-use sectors, has been slowing globally since 2017, showing just 2.8% growth in 2018, followed by 1% in 2019. This was the lowest level since 2009 and less than half the 2015 rate of growth.

Megaprojects and non-oil growth slump in UAE

In the UAE, demand has slowed following the winding down of a rash of large-scale construction projects – mainly in real estate and transport infrastructure. It was to supply these sectors in particular that the Emirati government first financed local steel sector expansion. Some $3bn was the invested in the largest producer, Emirates Steel (ES), in two expansion programmes between 1998 and 2012.[2]Since then, the steel industry has become “A vital component and contributor to the UAE’s economic diversification agenda," according to Matar Al Neyadi, undersecretary of the Ministry of Energy and Industry, who spoke at the Middle East Iron and Steel Conference in Dubai back in December 2019.[3]

Since oil prices began falling in 2014, however, economic growth has been sluggish, particularly in the non-oil sector – where most SWIP end-use sectors lie. Central Bank estimates show non-oil GDP growth falling from 1.3% in 2018 to an estimated 1.1% in 2019.

At the same time, steel supply has been buoyant. WSA figures show global production rising by an annual average of 3.7% in 2015-18, with 2019 seeing output up 3.4% to 1.87bn tonnes.[4] The UAE, which ranks 38th in the WSA's global steel production charts, added to that pile in 2019, too, hiking its output by 2.4% overall, from 3.2m tonnes to 3.3m.[5]

The local sector is dominated by ES, part of the giant, government-backed Senaat holding company. The domestic market absorbs about 80% of its output, which was around 3.1m tonnes in 2019, with approximately 90% of production absorbed by the construction sector – either directly, or for projects in the oil and gas sector, according to company sources.[6]Remaining output comes from outfits such as Conares, Al Ghurair, Al Gharbia, Gulf Steel Industries and steel wire manufacturer Al Khaleej.

The most recent data available from the OECD shows the UAE had a total steel production capacity of 4.8m tonnes in 2018.[7]This suggests a capacity utilisation rate (CUR) of around two-thirds that year and, given that there were no announced additions to capacity in 2019, a similar CUR for that year, too.

Global steel is stiff competition for local producers

Clearly then, the figures point to a steel industry faced with sluggish demand growth and significant over-capacity, even as it ramps up production. This mirrors global patterns, with one outcome recent low steel prices, worldwide. In July 2018 steel reinforcing bars – a vital element in construction – went for $620 per tonne in the UAE, but by November 2019, were trading at $460 per tonne. Since then, there has been a bump, with prices at around $530 per tonne in February 2020, but many fear the impact of coronavirus will rapidly reverse that hike.[8]

For the UAE's steel producers, there is an additional challenge to these numbers, too – international competition.

China, the world's largest steel manufacturer by far, with around 53.3% of total global production in 2019, increased its output by 8.3% in 2019, according to the WSA. India, the world's number two producer, with a 5.9% global market share, hiked its by 1.8%. The concern among steel producers in the UAE is that a big slice of this ends up in the Emirates, where it can out-compete local product.

This happens for a variety of reasons. First, back in 1998, when the UAE embarked on a major programme of expansion in its steel industry, as a way to localise and diversify, it was faced with a major local construction boom, alongside relatively cheap local electricity to power blast furnaces, given that the UAE is a major oil and gas producer. Neither of these factors have been the case for a while now, however, while the lack of local raw materials means these have to be imported, subject to the ups and downs of global market prices.

Second, when the UAE was a steel consumer, rather than producer, customs and tariff regulations tried to make importing steel as easy and cheap as possible. While tariffs have been increased since then – from 5% to 10% on most steel products in April 2019 – growing protectionism abroad has meant that the UAE is far behind the tariffs charged in many export markets, seriously damaging UAE steel producers' ability to balance their books by selling product abroad. India, for example, charges a 10% basic duty on imported steel, plus a 12% countervailing duty, if the steel comes from a country with any state support for steel – plus a 4% Special Additional Duty of Customs.[9] The US, meanwhile, has recently hiked tariffs to 25%.

Pushing upstream a solution?

Faced with increasing costs, declining demand, limited export potential, cheaper competitors and rising over-capacity, these are therefore tough times for the UAE's steel producers.

One way to try and meet the challenge is to reduce costs. This could be done by, for example, driving upstream and securing raw materials at source. This was behind the decision by Emirates Global Aluminium (EGA) – which faces similar challenges to ES – to secure a bauxite mine in Guinea, which began shipments to EGA's plant in the UAE in August 2019. Another strategy is to boost diversification, producing a wider portfolio and more specialised products. ES has benefitted from supplying specialised steel for the UAE's new nuclear plant, while it has considerable experience in manufacturing high-specification steel products for the oil and gas sector.

Propping up the industry difficult to sustain

At the same time, with ES a major, government-backed industry, there may also be a political temptation to keep the mills rolling at whatever cost – and accept a loss-making price level, rather than shut down furnaces.

In 2019 this reportedly happened elsewhere in the GCC, where similar, government-backed steel outfits face similar problems.[10]If such a policy does develop, however, the already unlevel playing field may become even more bumpy – with steel's future connected more to the depth of government pockets than any genuine balance of supply and demand. How sustainable that is will be a question facing many sector players in the year ahead – particularly at a time of such global uncertainty.

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