Overview of the Lebanese Steel Market

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Lebanese Steel Industry Reliant on Imports

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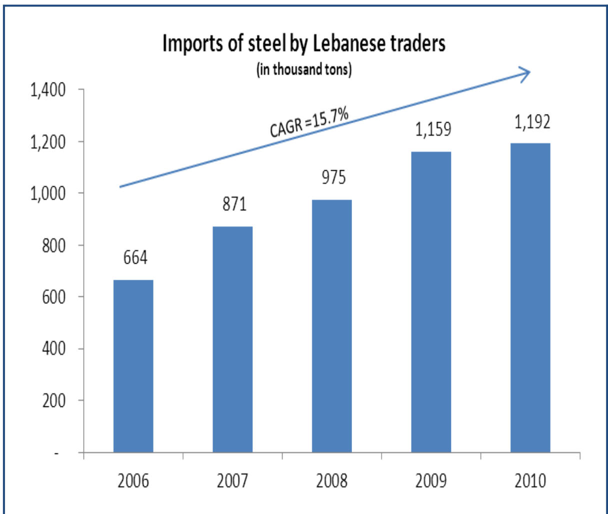
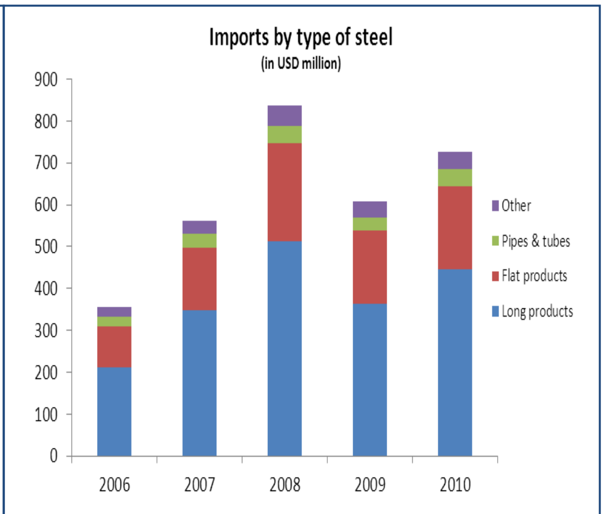
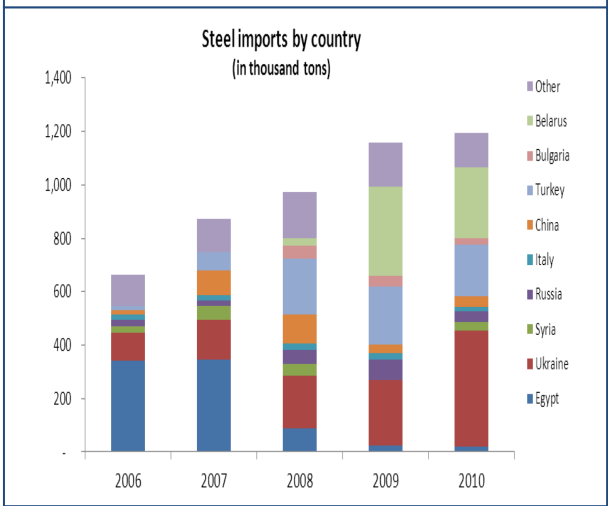
Steel domestic consumption at 1.2 million tons in 2010 mostly satisfied by imports from CIS countries and Turkey

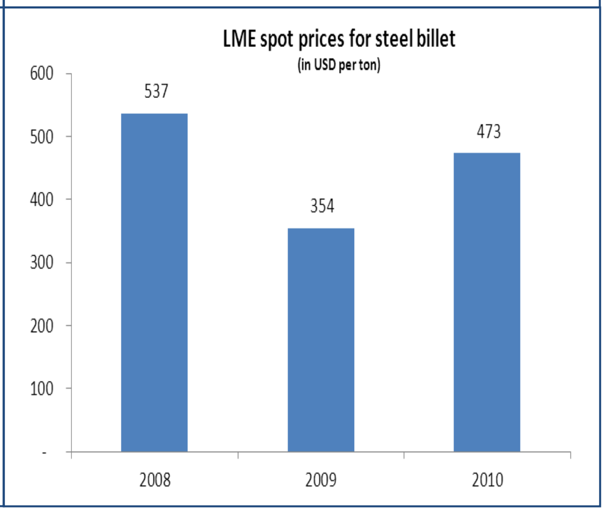
Market structure inclines towards oligopoly with Demco, Tannous and Yared as the top traders

Local pricing relies on global economic fundamentals of supply and demand, raw material costs and traders' desired margin









Source: Lebanese Customs, Bloomberg, Research Dept.

Confined by a limited local production, the steel industry in Lebanon has always been highly reliant on imports with the real estate and construction sector being the main sources of domestic consumption. Imports of steel have been growing at a CAGR of 15.7% over the past five years to reach 1.2 million tons in 2010 as compared to the 664 thousand tons in 2006. Record growth estimated at 31% was registered in 2007 following the July 2006 war. In fact, following the massive destruction in infrastructure, reconstruction efforts resulted in higher than expected growth for the steel market. From 2008 onwards, and following the period of political rest after the Doha agreement, steel consumption in Lebanon has been led by the real estate sector, caused by the surge in demand for properties. Expatriates and other Arab investors increased their transfers to Lebanon as they were looking at means to diversify away from markets hit by the global financial crisis

The steel market in Lebanon bends towards the oligopoly with a few players satisfying a large portion of the domestic consumption. These include Demco Steel Industries, Societe Libanaise pour les Metaux (Tannous Group) and Yared which, combined, hold more than 50% of the Lebanese steel market. Several local companies tend to ship one bulk of steel products from foreign factories and allocate the shipment among each other according to the size of the market that each company holds.

The types of steel products that are mostly traded in the country include:

- Long steel, which is the most common type traded on the Lebanese market as it is mostly used for construction purposes. Long steel products constituted 61% of total steel-related products imports in 2010.
- Flat steel, which is used in industrial manufacturing and comes second in place with 28% of last year's imports.
- Steel tubes and pipes, which are primarily used for transporting liquids and gases for both above ground and underground usage. They are also very popular in both commercial and residential plumbing systems.

During recent years, local steel traders have been importing steel mostly from countries of the Commonwealth of Independent States (CIS) – which includes former Soviet Union counties, with Belarus and Ukraine topping the list over the past two years. Both countries, along with Turkey, held a share of 75% of total steel imports to Lebanon. Prior to 2008, Egypt was by far the largest exporter of steel to Lebanon with an average market share of 46% between 2006 and 2007 while Ukraine held the second rank with a market share of 16%. Egypt lost its position as the main source of steel for Lebanese traders in recent years after the Egyptian government lowered energy subsidies, rendering Egyptian steel less attractive compared with the cheaper Turkish steel. In addition, the increased Egyptian domestic demand for steel has been exhausting most of the country's production

Prior to 2003, domestic demand for the commodity was partly satisfied by Consolidated Steel Lebanon S.A.L., which operated the country's sole rolling mill producing an average of 64,000 metric tons of steel output between 1997 and 2002. The company shut down in 2003 on high input costs. In fact, according to Mr. Pierre Yared, Director of Operations at Jean-Claude Yared & Fils, no production of steel takes place in Lebanon due to the elevated electricity costs (US$0.14/kwh – compared with US$0.011/kwh for Syria, US$0.028/kwh for Egypt and US$0.07/kwh for Jordan) that would put Lebanese producers at a competitive disadvantage against other steel makers in the region. This is especially the case since there are no quotas or other restrictions on imports except for a 5% custom fee.

With the local market exhausting most of the inventory of steel, little is left for exports, especially since Lebanese traders miss the competitive advantage to operate outside the country. Most of the steel products are imported and directly sold as finished output in the domestic market, or imported, serviced and then sold to local consumers. Over the past few years, exports of steel products have been decreasing at a CAGR of 10% to reach 21 thousand tons in 2010 as compared with 31 thousand tons in 2006. In 2008 however, exports witnessed a peak at 44 thousand tons as local steel traders increased exports to Iraq with the reconstruction activity of the country destroyed by the war kicked off. Besides Iraq, Belgium and the United Kingdom have been consistently topping the import destinations for steel since 2006. However, with a very limited local production, triangular transactions have flourished in the past few years, with local traders importing steel-related products from factories in Russia, China, Turkey and Ukraine among others, to remote destinations in the world without passing through Lebanon.

With regard to product pricing on the local market, these are based on factories prices including shipping to port of Beirut to which are added additional charges such as clearing, customs and freight in, before each trader applies the desired markup. The most important variable in the equation is the mills' price that varies according to the economic fundamentals of global supply and demand, and to highly volatile raw material costs, thus making the prediction of future trend in prices extremely challenging. In fact, average steel import prices to Lebanon have been hovering between US$532 per ton and US$855 between 2006 and 2010, with the average cost per ton of imported steel products standing at US$606 in last year[1].

"With aggressive price movements, companies operating in the market have no margin expectations; however, they tend to forward price fluctuation to end customers", said Mr. Yared. It is worth noting that demand for steel in Lebanon is price elastic as both traders and end consumers rush on booking orders when prices are on the verge of increasing to sustain satisfactory operating margins.

[1] Steel prices per ton were obtained by dividing the value of imports in US Dollar per year by the total quantity of imported steel during that year, source: www.customs.gov.lb

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