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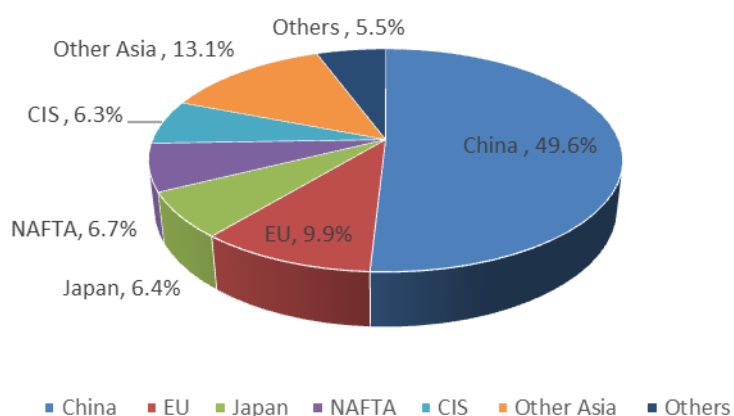
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The steel industry, one of the largest industries in the world, is seen as a barometer of the world's economic health. Steel is essential to the modern world, since it's used in the construction of building, roads, railways, and infrastructure, with more than 50% of total steel production going into real estate and infrastructure. The industry is worth \$900B, a year, and has a total production volume of 1.63B tons.

The major steel producer in the world remains China with 50% of the total in 2016, followed by 9.9% for EU countries and 6.4% for Japan. Middle Eastern countries grasped a small share of 1.9% of total steel production. As for steel use per capita, South Korea acquired the largest share with 1.13 tons/ capita, followed by Taiwan and Czech Republic with 782 kg/ capita and 635 kg/ capita, respectively.

World Crude Steel Production



Source: World Steel Association

In fact, with markets adjusting to the slower levels of Chinese growth and the 60M ton cut in Chinese steel production, world steel production witnessed a slight recovery of 1.12% in 2016, compared to a drop of 2.9% in 2015.

Rebar 25mm Prices



Source: Bloomberg

According to the World Steel Association, global steel demand will grow in 2017 due to a recovery in developed markets and growth in developing economies, specifically Brazil, Russia and India. In fact, emerging and developing economies are expected to show a 4% average annual growth between 2017 and 2018. Nonetheless, it is expected that China's demand for steel to slightly fall in the upcoming two years as an effect of the slowdown of the government's infrastructure stimulus.

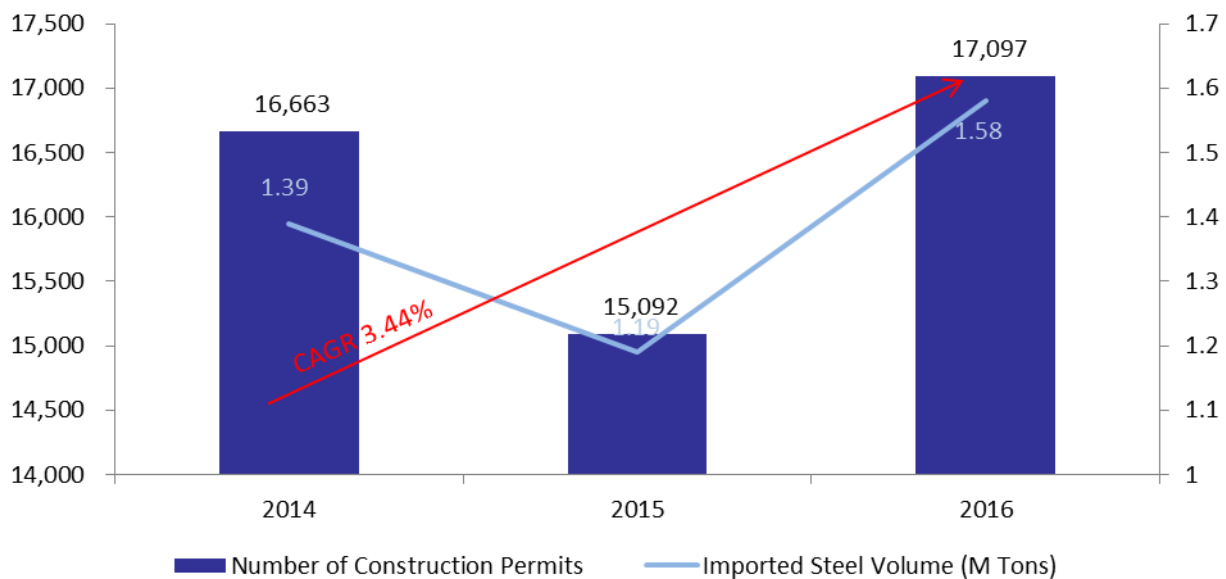
The steel industry in Lebanon is characterized by being highly competitive since there are no barriers to enter this market. DEMCO maintained the largest share in the market (40%) followed by Jean Claude Yared & Co, Tannous Group, Ayoub Beaino and Al Moussawi Trading Company. However, shares have been significantly fluctuating throughout the years as the construction industry has been suffering especially after the Syrian crisis, which led to several projects terminating and steel companies shutting down.

In fact, construction activity and the steel market are tightly linked. The rise in steel imports could be attributed to two main factors. The rise in issued construction permits, in 2016 as well as the political breakthroughs in the last quarter of the year pushed the steel demand.

Steel demand in Lebanon reaches almost 1.1M tons a year, with 60% of steel demanded going to construction while 40% to industrial purposes. The main drivers of the industrial steel demand are generators, ducts of air conditioning systems as well as truck trailers and cargo containers.

The volume of steel imports varied in the past 3 years, yet it has been growing at a compounded annual growth rate of 3.44%. The volume stood at 1.58M tons in 2016, recording a 33% rise from 2015, after posting a 15% yearly drop in 2015.

Since the largest bulk of demand is used for construction, Lebanon imports 3 main types of steel : "Bars and Rods", with a share of 70% of total imported steel, followed by "Flat-rolled Products" with 20%, and "Tubes and Pipes" with 3%.



Source: Customs, Order of Engineers

Steel imports are subject to custom duties worth 5% of total value. However, the free trade agreement between the European Union and Lebanon as well as Lebanon's bilateral investment agreements with Ukraine and Russia allowed steel imports to be exempted from these customs or to be charged less. The Greater Arab Free Trade Agreement (GAFTA) also allows the import of goods and products from Arab countries with no custom duties. Nonetheless, key players in the country have little interest in importing from Arab countries as shipping costs are too high.

As such, given the high relative costs of importing Chinese steel as well as the better quality of Ukrainian steel, market players are shifting towards importing steel from Ukraine and Russia. In fact, Chinese steel imports acquired 64% of total imported steel in 2014, while Ukraine and Russia grasped 13% and 2%, respectively. In 2016, 50% of steel is imported from China, 20% from Ukraine and 9% from Russia.

Worth mentioning, steel prices in Lebanon follow international prices with a premium from shipping, handling, and customs. As such, local prices stood at \$450/ton, including a 10% - 15% charges (VAT tax + custom duties) and cost and freight. As an emerging intensive industry, the plunge in oil prices in 2016 led to the drop in international prices. Moreover, like any other product steel prices are impacted by the demand of the largest consumers such as China, the US, and South Korea.

As for Lebanese steel exports, the fall in steel prices over the years as well as the high costs of manufacturing and exporting have weighed down on the volume. Hence, steel exports are plunging at a CAGR of 12.80% during the past three years. Nonetheless, according to Al Moussawi Trading Company, they export small amounts of semi-finished or finished steel products, such as trusses, to African countries. Steel exports witnessed a yearly plunge of 47% in 2015, yet slightly recovered in 2016 with a 13% rise.

Looking forward, the steel industry has several opportunities to grasp. The stable political situation in the country as well as further breakthroughs will have a large impact on the steel industry. The recovering economy in 2016 was the major cause of the rise in steel demanded in Lebanon.

Moreover, in the next few years, demand for steel is projected to substantially grow as Lebanon is expected to increase spending on infrastructure projects. Government capital spending remained sluggish for the past 10 years. In addition, the 2 million Syrian refugees have utilized the infrastructure which severely deteriorated

in the past few years. Hence, Lebanon is in need of implementing large infrastructural projects including roads, bridges, electricity, etc.

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