

صناعة الإسمنت في دولة الإمارات

Profile of the U.A.E. Cement Industry

Construction activity - Construction industry has been on a major upswing the entire past decade in the entire Gulf region. In U.A.E., the boom was particularly spectacular, which gave considerable boost to the entire construction material industry. There was considerable expanded activity in both the manufacture and trade of construction materials. While trading companies can quickly adjust to the changing demand, the challenge is much greater for manufacturing companies. Cement, of course, is the most important of the construction materials and demand for it was such during the boom years that despite producing at full capacity, domestic factories were not able to meet the requirement. The consequent demand-supply gap had to be filled up by imports. This gap has now have been reversed.

Cement Manufacturing Capacity in U.A.E., Thousand Tons, 2009

| | Emirate | Capacity |
|---|----------------|-----------------|
| 1 | Ras Al Khaimah | 9,550 |
| 2 | Sharjah | 3,800 |
| 3 | Abu Dhabi | 3,700 |
| 4 | Dubai | 3,500 |
| 5 | Fujairah | 2,400 |
| 6 | Ajman | 1,250 |
| 7 | Umm Al Quwain | 500 |
| | Total | 24,700 |

Source: EIB Surveys

Demand – According to a global study on cement, U.A.E. has one of the highest per capita cement consumption in the world which stood at 1757 kg/person even before the construction boom. The consequence of the construction boom was an exploding demand for cement, leading to shortages and higher prices. Demand has risen from around 7 thousand tons in 2000 to around 12 million tons in 2006 and to a peak of more than 25 million tons in 2008. Most of the demand was met by rising domestic production with sustained expansion of

capacity. Because cement does not easily lend itself to international trade, imports have always been low and even in the high demand boom period met only about 15% of demand.

Capacity - Cement production capacity has almost doubled since 2004. Current total capacity is almost 25 million tons per year, and UAE's capacity is only second to Saudi Arabia in the AGCC region. Because of the sustained demand, more and more capacity was added in the last decade, including new cement plants. Since it takes almost two years to implement capacity expansion plans in the cement industry, capacity expansion was not able to meet the rising demand, which led to price increases, shortages and imports. Now, by the time some of the production capacity has come online, the market had changed.

Not only that because of the two year period it takes to install new capacity, cement production capacity is set to rise further. According to market sources, capacity is expected to increase by almost 19% in 2011, as a consequence of decisions taken earlier. Some factories have had plans to double their capacities. These figures are for Portland cement while the white cement capacity has remained the same at around 450 thousands tons per annum.

Facing the challenge - Consequently, competitiveness in the market is set to increase. Certain cement companies would continue to perform well due to their favourable cost structure and advantageous location. However, the challenge is not new and the cement industry has experienced excess capacity situation earlier. A large number of cement factories faced excess capacity difficulties during the recession in the eighties. This situation of excess capacity continued till around 2000 and exports filled the gap. Since then, the situation was reversed when cement supply shortages resulted in imports and added capacity in existing as well as new factories for both, cement and clinker production.

Production – Currently, there is at least one cement factory in every Emirate. The U.A.E. cement industry produces Portland cement, white cement as well as clinker. Ras Al Khaimah is the leading producer because of its abundant and high grade limestone reserves and accounts for slightly less than half of the production and capacity. Ras Al Khaimah Rocks Company is the major quarrying unit in the country. Raw material is available in abundance.

Production and future demand – According to the UAE Cement Manufacturer's Association, domestic manufacturer's sale in 2009 were 17.8 million tons. This can be taken as a fairly accurate estimate of the production, suggesting a 28% excess capacity. Such an excess capacity level may not be ideal, but is not critical. Few manufacturing industries produce at full capacity at all the time. However, the problem is that cement manufacturers association estimates demand to slide further to 13.5 million tons by the end of 2010, namely another decline of almost 25%. This may be an overestimate, but demand does not look recovering in the short run, so the industry needs to have an appropriate strategy during the low demand period while waiting for demand to revert to earlier levels for which the new capacity was built. While the industry as a whole will be able to weather the storm, some individual factories may find the situation difficult. Though the manufacturers have asked for protection, imports are not a threat or a problem.

Imports – Imports may have been high in the boom period till 2008, but are not likely to have remained anywhere close to these levels in 2009 for which figures are not available yet. Imports are now focused on special cements like white cement, hydraulic cements, aluminous cements etc., whose demand is in small quantities. Imports sources are Egypt, Iran, China and India. Re-exports have always been negligible.

Cement and Cement Products Import Demand, 000 Tons

| | Imports | Re-exports | Net Imports |
|------|----------------|-------------------|--------------------|
| 2004 | 901 | 7 | 894 |
| 2005 | 1386 | 2 | 1384 |
| 2006 | 2293 | 3 | 2290 |
| 2007 | 3299 | 6 | 3293 |
| 2008 | 3738 | 9 | 3729 |

Source: UAE Trade Statistics

Prices – During the boom, demand soared to such levels that prices almost doubled between 2003 and 2004. A five percent import surcharge was lifted and imports started to come in. Prices stabilized at about 10-20% more than previous levels and cement manufacturers announced large investments to add capacity to meet demand.

The recent demand-supply gap meant that a price adjustment was inevitable and prices have fallen. In April 2009, the Ministry of Economy fixed the cement rates across the UAE at AED 280 per ton and AED 14 for a bag. The decision to revise the price was taken with the conditions prevailing at that time, when factories were selling cement at AED 300 to AED 310 per ton, and bags at AED 15. While at that time there was reluctance among manufacturers to accept these prices, they were compelled to reduce prices in the following months.

Stability - To avoid price wars and bring stability, the industry decided to fix prices. In February 2010 the cement manufacturers' association announced prices at slightly higher than prevailing levels. In Abu Dhabi, which is less affected by the slowdown in the construction sector, cement prices were fixed at AED 250 per ton, whereas in Dubai at AED 240 per ton. In the Northern Emirates, where most production capacity is located, cement was priced at AED 220 per ton. Prior to this, cement prices ranged between AED 220 and AED 225 in Dubai, and between AED 170 and AED 190 in the Northern Emirates. Though the decision has no legal binding, all member factories are expected to abide by the prices.

Outlook – Construction activity having abated but more capacity coming online, the cement factories are not likely to be producing at full capacity soon. Price adjustments are not likely to boost demand, so the industry's decision to hold moderate prices and not allow price wars or a price crash is an appropriate one. If the prices fixed by the industry's association can be held, business will continue to remain profitable despite some excess capacity, though this will vary from factory to factory. The new added capacity is best utilized by focusing on exports. Exports might be more challenging than selling domestically but UAE's cement factories have been long in the business to find a niche in the international markets. When the boom period started, UAE factories turned down export orders to cater to domestic demand.

The leader cement producer, Ras Al Khaimah, already has a rather good record in exports. Almost 90% of its production is exported. Bahrain and Oman are major cement importers in the AGCC region. Sudan, Somalia, Ethiopia, Pakistan and Yemen have also been importers. In the short to medium run, the cement industry is likely to focus on exports to utilize its excess capacity. Unlike the Western world, the neighbouring markets have not been affected by the financial crisis since 2008. Demand continues to be robust there and offers an opportunity to profit from the recently expanded capacity.