



Steel Industry in 2016

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Importance of Steel in Development of Societies



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Steelmaking is considered a parent and basic industry which could ensure sustainable and widespread employment. This industry, in addition to direct employment generates indirect employment of up to five times of the direct employment.

The industry, in addition to industrialization of Western countries and the former East bloc, has played a pivotal role in the development of East Asian countries as well. In the meantime, countries devoid of natural resources and the required raw materials for creation of steel industry have taken measures to launch the industry in their country. For example, Japan after the World War II, based its development on iron and steel and at present, chemical and heavy industries rely on steel industry.

South Korea, like Japan, without having the raw materials and energy resources and even a proper market has turned to this industry for its development. The annual production of about 800 million tons of steel by China and economic growth of that country even under the critical global economic conditions, are examples of the pivotal role of the steel industry in industrial development.

With regard to these evidences, industrial policies of the developed countries, particularly the role of industrial policies of Japan, East Asia and China, are considered new lessons for development. Among the most important points of interest in the development experience of countries in East Asia is that in these countries both the role of the development-oriented government and developmental organizations and the role of free economy and the private sector is significant.

Although one of the important factors in the development of East Asia is attributed to the efficiency of governments, and the significant role of the development-oriented government is considered in the development, the new line of thinking is that the markets and the private sector have had the best performance and they operate more efficiently for the cause of industrial development and growth.

Of course, it should not be forgotten that realization of industrial development by the private sector is not possible in the absence of infrastructural investment and establishment of infrastructures by the government. Rather, pioneer status of the governments in providing these infrastructures and guiding and planning them is imperative for the completion of the lost rings of development and promotion of less developed societies. That important duty is shouldered by the developmental organizations.

Another issue that is important in the development of these countries is rapid absorption and adoption of steel technology from advanced countries that play an important role in the competition.

In all the developing countries, the steelmaking projects in the form of complex are implemented by the government because steel complex is in need of very high initial investment that no one but the government could tolerate the high risk of such grave investment. In these countries, too, the process of construction of steel complexes begins with the government ownership and then it is delegated to the private sector or by adoption of the policy of liberalization, the private sector enters into establishment of steel industries.

Today, if Iran's private sector has been able to make satisfactory gains in the steel industry, it is all thanks to the activities, support and help of a powerful organization called IMIDRO (Iranian Mines and Mining Industries Development and Renovation Organization).

Experience shows that when a nation is determined to achieve development and bring about change and when intellectual, mental and motivational conditions as well as sound management are available, no problem and shortcoming, even poor natural and material resources, could block the way to development. Man and his determination and will as well as sound management are the axis of development. The role of steel industry in industrial development can be a unique role provided that other elements of development would create no obstacles in the process of development. Both the public and the private sectors can be efficient and it is necessary to play a targeted role in the process of development. The obvious example of this role-playing is crystallized and manifested in Mobarakeh Steel Complex.

In the 1370s (1990s) the several hundred million dollars of investment for the purchase of technical knowhow and establishment of the management system in that company was not justifiable for most of the industrial sector managers, but today this investment has produced results and we are witnessing its positive effects in the industrial development of the country.

This issue proves that the managers should move with their lights on and create a desirable future so that through timely self-regulation in the event of adversity and external barriers will not get surprised and in fact make the country resistant against economic problems.



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Global Steel in Past Year

Global steel output in 2016 with a growth rate of 0.7% reached 1.6 billion tons of which China with an output of 808 million tons had a share of about 50.5%. Interestingly, China's steel production is more than 10 times of the United States and 30% more than the total production of 10 steel-producing countries standing next after China which indicates the importance of the role China plays in this regard. The average growth rate of China's steel in 2016 was also 1.2%, which is close to two times of the average growth of steel production in the world, and in fact we are still witness to the growing share of this country in the global steel.

The Chinese are still continuing the policy of financial expansion and growth through injection of bank loans which will cause optimal growth in steel demand and price hikes. The world steel price during 2016 enjoyed a growth rate of close to 72% which is the result of the raw material's price increase as well as aggravation of global demand, especially in China. In addition, supply constraints, as a third factor, have created this condition. Therefore, a favorable opportunity has been provided for Iran's steel industry to make more profits in production and take measures to finance and develop unfinished projects.

At the beginning of 2017 and before the New Year holidays in China, we were witnessing fluctuations mostly on drops in prices, but after the reopening of markets in China and the return of Chinese from vacation, the slight drop in prices was compensated and prices soared to the highest level in 29 months leading to February 2017. Iron ore prices passing the margin of \$100 in Dalian stock market and the plan for the closure of units producing steel from scraps, due to lack of standardization of the products, will endanger production of 120 million tons of steel in China. This incident is among positive factors for boosting the market in 2017 and means continuation of the favorable situation for steel-makers, including Iranian steel-makers.

IMIDRO, in an effort to produce seamless pipes, has signed memoranda of understanding which will be put into operation after financing.

The Chinese consume 32.5 tons of iron ore per second and their steel makers in order to reduce environmental pollution have embarked on consuming high grade iron ore which has decreased local iron ore mines output and registered 7.5% increase in imports in 2016 (a total of 1024 million tons). Increase in China's demand has caused a growth of 81% in the price of

iron ore in the world market which continues in 2017 as well. Iran enjoys optimum iron ore reserves and the Iranian steel makers enjoy the relative advantage of price which is a good opportunity to grab.

Statistics on the world economy show that the volume of housing construction in the world in 2017 will make a growth of 3.4% which is the highest figure since 2006. However, concern over importation of cheap steel by China has imposed anti-dumping tariffs on Chinese steel and caused a reduction of 4 million tons in steel export in 2016 (the figure for 2016 was 108 million tons). This issue can be a special opportunity for Iranian exporters to meet part of the shortcoming of the regional markets. Japan too due to the strengthening of part of its infrastructures, has predicted 3% increase in steel consumption in 2017.

Iran, in the first 10 months of 1395 (March to December 2016) exported a total of 4.4 million tons of steel which shows an increase of 45% over the same period last year. Meanwhile, the share of Iran's steel production from the Middle East output is 61.6%, showing a growth of 1.8%.

Coal prices in 2016 after fluctuations recorded a growth of 300% and were later stabilized at \$168 per ton which is about double the prices in the beginning of 2016. This provides a special opportunity for producing steel out of natural gas for countries including Iran. Iran by producing 14.5 million tons of sponge iron in 2016 ranked first in this sector and has a share equivalent to 25.3% of the world production. Under the present circumstances, Iran's steel in terms of production costs is competitive. Because, about 87% of Iran's steel production is through direct reduction and from the natural gas.

In the Sixth Development Plan of the Islamic Republic of Iran, in accordance with the approval of the Joint Committee, the price of gas for energy consuming industries such as steel is expected to be set at 90% of the lowest pricing rate in the region. For the deprived areas the figure would be 80%. Therefore, the cost of production in direct reduction method is in line with the motivating gas price and will be an appropriate opportunity for domestic and foreign investors to take advantage of.

Manufacture of products with higher value-added for increasing the level of competitiveness is among the targets of the steel industry and in this way, production of national rail at Isfahan Steel Mill and Iran Alloy Steel has kicked off which is good news for the country's steel industry. Increase in production of special sheets has been achieved by companies such as Mobarakeh Steel Complex and Oxin Steel.

IMIDRO, in an effort to produce seamless pipes, has signed memoranda of understanding which will be put into operation after financing. Increase in production of downstream products which will basically increase the profit margin of the producers, will increase competitiveness of Iran's steel industry.

It is predicted that 1396 (2017-2018) will be a good year for Iran's steel and steel supply chain in terms of production, export, operation and commissioning of development plans as well as physical progress of ongoing development projects.