Now that sanctions imposed upon Iran by the west have been lifted, following a landmark nuclear agreement that was rubber-stamped last month, expect to hear a great deal more about new contracts struck between western steel production technology companies and the MENA region’s largest steel producer. By Matthew Moggridge*

IRAN’S re-entry on to the world stage will be cause for concern for the global steel industry, which is already feeling the pinch of an overcapacity situation blamed largely upon the Chinese, although it is a well-documented global phenomenon.

Iran is showing plenty of promise for western companies. According to the International Monetary Fund (IMF) the Iranian economy will expand 4.3% this year, with growth around 4% over the next two years. Iran’s imports are set to expand 18% in 2016, 14% in 2017 and 7% in 2018.

The big question on many analysts’ lips, however, is whether current oversupply issues will be exacerbated by Iran’s return to the world stage. According to some online media reports, it is difficult to come by accurate figures for just how much demand Iran will add to the equation.

Connor Campbell, senior market analyst at Spreadex, commented, “While talk of Iran’s post-sanctions re-emergence has largely focused on the potential effects it will have on oil, it could spell trouble for another resource: steel. The metal is seeing similar over-supply issues to its slippery commodity cousin, and while cheaper prices may help boost the manufacturing sector, those producing the steel could suffer.”

Worrying signs
Gareth Stace, director of UK Steel, said: “With sanctions coming to an end in Iran we have already seen a surge of Iranian HRC in Europe at extremely low prices since mid-2015. This is a worrying sign, as according to some commentators the state owns 90% of all mines and related large industries and, therefore, we are likely to see an increase in dumping of Iranian steel in Europe as supply outstrips demand in the country.”

It seems as if the world and his wife are now focused on currying favour with Iran – once branded the ‘axis of evil’ by former US president George ‘Dubya’ Bush – and it’s not just western companies. The Chinese and the Japanese are also expressing a strong interest – and let’s not forget the Indians.

A recent report from Reuters claims that state-owned KIOCL is considering the construction of a US$59 million iron ore pellet complex in Iran and is in talks to sell over 2Mt of iron ore to the Iranians.

According to Reuters, “the potential Indian investment could offer cheaper supplies of processed iron ore to Iranian steel mills that, like most companies around the world, are having to contend with cut-
price steel from an over-supplied China.”

KIOCL’s planned investment could be complicated, claims Reuters, by two Iranian companies – Gol-e-Gohar and Sangan Mines – who plan to start their own pellet production in March, adding more than 5Mt in supplies.

In Turkey, however, there is less enthusiasm for Iran’s ‘new kid on the block’ status. It is argued that the Iranian and Turkish steel industries are very similar in terms of product output and that the former might prove to be stiff competition for the latter when it is considered that steel accounted for just 7% of Turkey’s exports last year. The fact that energy is cheap in Iran will also have a bearing on future developments.

Another potential spanner in the works for Rouhani’s centrist government is Iran’s so-called ‘hardliners’ who claim, according to a report in the Financial Times, that Iran’s natural and financial resources are being looted by western companies. The newspaper argues that hardline opposition to Rouhani’s business deals with the west are more to do with Iran’s February elections and won’t endanger the contracts themselves.

The worldsteel perspective

According to worldsteel, “Iran is the largest steel using country in the Middle East region with annual steel use of about 18Mt. The socio and economic environment of the country suggests that steel demand is likely to keep growing for a number of years to come.

It has a very young and growing population and ambitious plans to grow its industrial base. In 2016, Iran’s steel demand is expected to grow by 6% and it could accelerate in the medium-term with an improved economic environment in the post-sanction era. In the short-term Iran remains a net importer and we do not expect this to change. The impact of the re-emergence of Iran is likely to be first felt in the Middle East region before it has global impact.”

Phil Ward, president of the US-based Steel Manufacturers Association, commented, “It remains to be seen what the re-emergence of a post-sanction Iranian steel industry will have on global steel markets. While there are still problems with overcapacity (primarily from China), the steel industry in the Middle East and North Africa is a key potential growth sector. Domestic infrastructure needs are very high in Iran. Iran’s ability to capitalise on gas-based DRI as part of its raw material mix due to the abundance of natural gas in the region is an important factor to consider. Additionally, Iran will still have to overcome economic and political instability. In my estimation, if the steelmaking capacity in Iran is used to meet domestic and regional demand, the short-to-intermediate term effects on global steel markets should be minimal.”

Good or bad outcome?

Rafael Rubio, general director of Alacero, the Latin American Steel Association, offered two possible scenarios for the global steel industry. On the one hand, he believes that if new demand from Iran can be satisfied by local production and imports, then it is good news as some of the current overcapacity can be used up.

However, if Iran chooses, over time, to self-satisfy its steel needs – as many developing countries have done in the past – then such a strategy will have a negative effect.

According to Rubio, the capital-intensive nature of steel production might lead to the Iranians relying initially on imported steel, which can only be a good thing.

“It is clear that Iran’s economic situation will start to normalise in the short-to-medium-term with the elimination of sanctions,” Rubio said, adding that the change won’t occur overnight. “As soon as conditions do change, the Iranian economy will enter a growth drive and over the next three-to-six years we will see a normalisation process taking place in Iran,” he said.
Ultimately, said Rubio, only time will tell whether the re-emergence of Iran is a blessing or a curse for the global steel industry.

European technology providers, bolstered by a recent trade visit from Iran’s President, Hassan Rouhani, are readying themselves for some much-welcomed new business.

Oddly, the only nation’s technology providers who might not benefit immediately from Iran’s newfound ‘open for business’ status are those in America. According to the New York Times, while the Obama administration has promoted the benefits of non-proliferation and global security brought about by the nuclear deal, it is ‘less vocal about the benefits for business’.

Sanctions still in place
This is because the Americans still have sanctions in place with Iran concerning the latter’s support of terrorism and human rights abuses. It means that American companies cannot sell oil country tubular goods (OCTG) to the Iranians – although they can trade in Persian rugs and commercial aircraft.

Conversely, the Russians are cock-a-hoop having maintained a good diplomatic relationship with the Iranians over the years and having what the New York Times described as ‘deep military ties’. It all bodes well for Russian steelmaker TMK, a major supplier of pipes to oil and natural gas producers.

It is all good news for steel production technology suppliers too as it means new steel contracts at a time when business is reportedly slow elsewhere in the world.

The Italian Danieli Group, for example, recently signed agreements worth approximately 5.7 billion Euros. The agreements, signed in Rome by the company’s chairman and CEO, Mr. Gianpietro Benedetti, relate to a joint venture and orders for the supply of machinery and plants to be installed in Iran.

“Persian Metallics” is the name of a joint venture project worth an estimated 2 billion Euros, which will involve a group of international and Iranian investors.

The Persian Metallics venture will use iron ore and energy to produce around 6Mt/yr of pellets to feed direct reduced iron (DRI) plants for steelmaking using electric arc furnaces – the most environmentally friendly and often most competitive way of making steel today.

Other agreements relating to the supply of machinery and plant to produce steel and aluminium will be signed with several Iranian companies and are worth an estimated 3.7 billion Euros.

South Korean steelmaker POSCO has announced the signing of a preliminary agreement with Iranian steelmaker PKP worth an estimated US$1.6 billion.

Home-grown talent
Indigenous steelmakers in Iran are also expanding operations.

The Kish South Kaveh Steel Company (SKS) in Iran claims to be investing heavily in steel production projects that will create around 1,000 direct and indirect jobs in the country.

CEO Ali Dehaqin, says that SKS intends to play an important role in the on-going development of the Iranian steel industry.

“Annual [Iranian steel] production of 55Mt has been envisaged until 2025,“ he said, adding that phase one of SKS’s steel production project was launched with a capacity of 1.2Mt/yr.

To date, SKS has produced 400 tonnes of steel using state-of-the-art equipment including an electric arc furnace (EAF/EBT/170/7500 model). The equipment in question is a CCM/6 strand/120-150-200 foundry machine with a tundish capacity of 30 tonnes and it is predicted to be capable of producing billets at nominal capacity.

Phase two of SKS’s steel production project is currently under way and is expected to come on stream in March 2017, according to project manager Shahram Salmasi. When phases one and two are completed, the company will be producing around 2.4Mt/yr of steel.

Dehaqin says that the establishment of three steel companies in different geographic locations within Iran will contribute heavily to the continuation of steel production by SKS.

In the east of Iran, the East Kaveh Company is prioritising mining and the production of pellets and concentrates in addition to the procurement of raw materials, such as iron ore, for steelmaking. The Kaveh Arvand Steel Company is focused on rolling and the supply of long products and will be a regular customer for SKS steel.
SKS is located within the Persian Gulf Special Economic Zone, close to the sea and within easy access of the Shahid Rajaee port where there is unlimited access to seawater for the company’s desalination plants.

The Southeast Saba Power Generation Company (SSPGC) is also within the zone and intends to construct a combined cycle power plant. Phase one, which is currently under construction, will produce 500mW of electricity. On completion of phase one, SSPGC will provide enough electricity to meet the requirements of SKS’s phase two development, according to Salmasi.

In a bid to provide the industrial water required by SKS’s steel production units in phases one and two, plans are underway to build two oxygen units at the South Kish Kaveh Steel Company aimed at producing 55,000 cubic metres of water per day. Supply pipelines are completed.

Three desalination units with capacities of 5,000, 10,000 and 17,000 cubic metres will pump a total of 32,000 cubic metres of water into the production cycle.

Other units will come on line gradually and as required.

Iranian iron ore production is expected to rise to 40Mt next year, up from 38Mt in 2013. Steel output is estimated to reach 55Mt by 2025 (up from 22Mt this year) and the Iranians are seeking US$20 billion to develop its domestic industry.

While steel is high on the agenda, there is also plenty of potential for other industrial sectors, such as aluminium.