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Saudi steel**

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liveliest markets**

Rayed Abdullah Al-Ajaji

“Innovation is the key to success”

Swamped by products imported from China, the Saudi market for coated steel coils has been a challenging one in which to operate in the recent past. Unicoil, a galvanized and pre-painted steel producer in Saudi Arabia led by ceo Rayed Abdullah Al-Ajaji, has adopted a persistent strategy to stress the higher quality of its output and services, which now is being embraced by other steel companies in the country, Rayed tells Richard Barrett

Responding to imports that progressively turned into a flood of cheaper products from China a few years ago, Unicoil – the leading Saudi Arabian producer of galvanized (GI) and organic coated steel sheet and coils (PPGI) – decided to fight back by investigating the quality of imported coated products and resolving to produce the highest-quality coated coils for domestic, regional and international markets, supported by superior service levels. Unicoil was also the first GCC producer to seek the imposition of a safeguard measure on imports of PPGI. Unicoil is Saudi Arabia’s largest PPGI producer, with a capacity of 210,000 tpy from its processing lines in Jeddah and Jubail.

In late-2014, chief executive officer Rayed Abdullah Al-Ajaji outlined a situation in which total Saudi production capacity for PPGI production stood at 380,000 tpy;

local demand was about 255,000 tonnes, but imports to Saudi Arabia from China exceeded 160,000 tpy. The impact on local capacity utilisation of coil-coating lines was severe – running at an average of just 48% at that time. Matters worsened two years later, when local capacity utilisation fell further with the increase in imports. It is the serious injury the GCC PPGI industry is suffering from as a result of the significant increase in low-priced imports that led Unicoil to seek the imposition of a safeguard measure.

In his recent interview with *Metal Bulletin Magazine* for this profile, Rayed recalled that when he joined Unicoil, he asked the question: “What makes Chinese and Far East products cheaper than Unicoil’s?” He said that no-one was able to provide a credible answer.

The company thus collected samples of imported materials and

analysed them to identify some key reasons why they were cheaper. Some of the worst samples that were tested registered a zinc coating weight that was less than a quarter of recommended levels (90 grams per sq metre), paint thickness was sometimes less than half of what was declared, and lead levels in some products were very much higher than internationally accepted maximum levels (90 mg/kg). Unicoil has actively pointed out the dangers and contributed to work with agencies like ASTM to lower lead content in PPGI galvanized steel.

Since 2014, Rayed has encouraged Unicoil to acquire international certifications and accreditation for its own products, starting with the Saudi SASO Quality Mark and the Emirates ESMA Quality Mark. It now has ISO 9001:2008, ISO 14001, OHSAS 18001, the Jordan JSMO Quality Mark, the Kuwaiti ▶

‘Now everybody would like to follow the same example and model that we have been going through’



Diverse steel coil supplies

“Coated steel coils are the most challenging conversion industry in the steel business, with 85% of its cost as raw materials beyond our manufacturing control. This is a fact,” Rayed stressed.

“The higher the added value, the higher the competition is in this domain,” he added. “We have seen hot rolled steel products experiencing unprecedented and volatile fluctuations this year. And charts trending unrealistically upward pressure on prices. Owing to lower local demand and international pressures, the margin between the raw materials and the final production costs has become very unrealistic.”

He says there has been a consistent pattern across steel product manufacturing in Saudi Arabia, not just for coated coils. “Let’s not forget the pressure by G20 countries on China to cut their supply of steel production, and on restructuring, has also contributed to the situation of

HRC shortage of supply and increased prices.”

Unicoil has diversified its HRC supply from different markets. Rayed noted that certain markets, like Japan’s, may have different challenges and that Unicoil also sources coils from elsewhere: India, Taiwan, China and within Saudi Arabia. “That is our diversification portfolio to absorb these fluctuations and the availability of HRC,” he explained.

Unicoil’s agreement with the mills is always to go through different protocols of understanding, technical qualifications and trials. “We only purchase from reputable and highly funded mills. It takes a long time to approve a mill. Once it’s approved, there is always a memorandum of understanding with the mills, but there are no fixed hedging or long-term contracts. We have to continue purchasing depending on the current prevailing situation and purchase quarterly or monthly, as appropriate,” he concluded.

Quality Mark and the Dubai Accreditation Centre accreditation for Metallurgical Testing and Calibration (ISO 17025).

Unicoil has also made it a mission to educate end-users unfamiliar with the correct choice of materials for a particular application and on how to make the right selection, as well as judge the differences between the products available. “We are betting on the understanding of quality in the region. Our reputation and behaviour are well established,” emphasises Rayed. Now the company is ready to benefit from expected improvements in market conditions next year, he stressed.

Market realities

Rayed says that Unicoil sources best-quality zinc from Korea for galvanizing and the best organic and lead-free paints: “We are trying to be noble.” However, despite all of the company’s efforts in response to challenging markets, the business is not immune from trends in its home market. “It is not a secret that Saudi Arabia has been reforming and restructuring the economy, which has generated many uncertainties and has lowered demand further this year,” Rayed observed.

Up to the end of 2013, PPGI used to contribute 70% of Unicoil’s total sales volume, with the balance

coming from GI: “But due to the excessive imports of PPGI at extremely low prices, starting from 2014 mainly, the situation has reversed.” He said that the domestic market in 2017 has been much worse than in 2016, both in terms of volume and value: “In fact it was the worst of the past four years.”

Unicoil’s domestic sales volume of PPGI decreased by 23% in 2017, compared with 2016. In addition to the uncertainties created by adjustments in the Saudi Arabian economy, regional recession and national restructuring “has not only put pressure on Unicoil but the steel industry in general in Saudi Arabia and the GCC producers,” Rayed explained. “And the lack of remedies to address rapidly increasing imports has contributed to the overall negative performance of 2017,” he added. In June 2017, following a one-year-long thorough investigation, GCC authorities concluded that the conditions for the imposition of a safeguard measure are satisfied and recommended the imposition of such a measure on imports of PPGI. However, to date, GCC States are still to agree on the imposition of this measure. This delay and the absence of provisional remedy has negatively affected the performance of the industry.

Unicoil has consequently focused on exporting its coated coils in 2017,

“where mature markets have appreciated the quality as well as services offered by Unicoil,” said Rayed. Unicoil has increased overseas exports by 67% in 2017 in comparison with 2016. “This was to compensate for the slow-down in the domestic market. This is both for GI and PPGI products combined.” For example, 11% of Unicoil’s production has been exported to the USA in 2017, and a further 5% to European countries, he said.

Prices for coated steel in the Saudi Arabian and GCC markets this year have been under continual pressure from imports. Rayed says the absence of the enforcement of trade protection regulations, plus the recent weaker demand, have increased competition and resulted in price suppression.

All this has made the market customer-driven, he noted, and the premiums received for quality products has become less: “This has been witnessed clearly on all finished products of metal-coated steel as well as for products from other steel industries, which have seen the same pattern.”

Rayed stressed the importance of the national Saudi market for Unicoil: “We rely on the national market. We aim and are capable to supply to market with all the competitive solutions and volume as well.” He expects that markets will become mature and stable in 2018. Unicoil serves industrial sectors including those producing heating, ventilation and air-conditioning (HVAC), automobile garage doors, and appliances and refrigeration units. “We have a firm belief that we have developed so many logistical and business solutions for this range of products,” he added.

Rayed is confident that market conditions will improve next year: “If you look at everything, we did all by the book, and the outcomes are still subject to true and real enforcement by the related government agencies. I am very optimistic that by the end of this year the reforms will be completed.”

Extensive sector experience

Rayed graduated from the University of Miami, USA, as a Bachelor of Science in Industrial Engineering and Engineering Management and

he has further engineering qualifications as a Master of Industrial Engineering from the same university.

Rayed has about 20 years of experience in different steel sectors in Saudi Arabia. His career started at Sabic. He originally joined Unicoil as a sales and marketing manager, spending over 5 years in that role. His career progressed at Rajhi Steel, where he was as a commercial vice-president, and Masdar building materials, as general manager of their largest portfolio of business, in Saudi Arabia.

Rayed rejoined Unicoil as ceo, where his leadership has not gone unnoticed. He has recently been elected chairman of the Saudi National Steel Committee and is a board member of the Arab Iron & Steel Union.

"Unicoil was put in a situation where we had to learn the hard way," he said, recalling the company's market challenges. He says that the steel community in Saudi Arabia appreciates the approach that Unicoil has taken. "Now everybody would like to follow the same example and model that we have been going through. This is the right and correct model, I believe. The whole country is now going through best practice with respect to quality, standardization and enforcement. So we are quite optimistic."

Work still to do

Unicoil's product innovations in the past couple of years have included anti-bacterial coatings, tri-chrome passivation of galvanized steel and products specifically designed for the HVAC sector: but how have those been received by the industries they were designed for?

Rayed gave an honest appraisal: "We have developed 12 new smart-coating systems in total to date, and five new smart galvanizing systems. Some of these new products have been received very well. Some are better received in overseas markets while some frankly may take years to be perceived well," he stated. "Making these products available is part of Unicoil's approach to business solutions and diversification in such a competitive market."

He stressed that innovation is embedded in the spirit of Unicoil and

will continue: "This is part of our vision: that we continue R & D to serve and develop new solutions and also adopt the latest innovative technology in this business. There are more products we are developing, which are still under the final stages of testing. Some we believe will lead towards a complete market shift in consumer behavior once launched."

The company's work to encourage the strict application of standards and regulations continues. "We trust we have met all the requirements of *the mawazif* for all that can be done. Starting from creating national, regional and international standards and aiming currently to impose national and GCC commercial-trade fair practices, up to educating society and the public at large," he reminded.

"It is a pity that after five years of this continual, consistent and unprecedented promotional effort to develop fair market trade nationwide, we are still seeing no significant effect on the market," he said. Rayed noted slight improvements in the pattern of demand in favour of Unicoil products: "It is definitely much better in terms of reliability and branding, and getting Unicoil the preference always in any demand enquiry in the market – yet the gap in the prices also does not help owing to the regional factors going on, which I have mentioned. Reality is reality and this is a commercial trade after all."

He added that the private investment sector is a national cause and that the company has met and exceeded its social and industrial obligations: "None of these efforts will ever become effective without government enforcement of strict regulations at the borders, survey of the markets and application of trade remedies provided for in the World Trade Organization Agreements in an effective way."

Rayed said that he is now seeing signs of stricter application: "I have a strong belief and I have been seeing it, and witnessing it for the last 1-2 months, that there are serious efforts to complete actual work plans by the end of 2017 to make all of this happen.

"The learning curve takes time and all of these concepts were very new to Saudi Arabia – plus the transformation we are going through – this is natural to have some



Unicoil produces galvanized and organic coated steel sheet and coils

drop-downs here and there. But I am a strong believer that things will show very positive towards 2018 and beyond."

The new generation

Rayed's optimism extends to the approach he would take to encourage new employees joining the region's steel sector. "I would tell them that the steel industry is promising in the Middle East. A positive scope exists for the growth of business in this region – particularly in the GCC and Saudi Arabia," he stressed. "Therefore I believe there is a good opportunity for new aspirants wishing to join the steel business and get trained in the right industrial environment to follow fundamentals and understand the principles of manufacturing and social responsibility."

Again he underlined the importance of research: "I always would advise anybody who looks forward to join the steel business/ manufacturing to really have a sense of responsibility and have the right to defend its obligations in a scientific approach through research & development. Without research, no-one can develop true experience.

"I think innovation is the key to success, whether for the steel industry or anywhere else. I believe strongly in research. What I have found in the younger generation is that they don't go into details." In his opinion, the millennial generation do not utilise the internet properly to evaluate and analyse and act accordingly: "We also have to know why we are the best."

He added that research does not cost that much "if you just look at the right knowledge at the right time. You start with the fundamentals. And once you've done the basics, all that you need to do later on is to continually build on your resources. We had laboratories many years ago, but they were not utilised properly." He says that it was not until the company started collecting samples and continually testing that it began "to have a radar detection on the whole market, and then people got used to it."

Unicoil decided to upgrade the reliability of its laboratories by joining ILAC (International Laboratory Accreditation Cooperation), "So ▶

nobody could defeat our final say on the test results.”

Rayed declined to give a figure for the amount that Unicoil spends on research as a percentage of revenue, saying instead that “It is part of our culture and daily routine now.” He also took the opportunity to distinguish Unicoil from other companies that quote a percentage figure as a measure of their commitment to research by saying: “We are not a corporate, we are really like a boutique industry, following everything ourselves, getting involved in the details, using our resources and doing our business ‘with passion.’”

Passions outside work

Rayed pointed out that the breadth of his responsibilities at Unicoil and within the Saudi steel industry leaves little spare time beyond work, but he likes to spend any available free time with his wife, two children and their family pet – a golden retriever.

“We are all busy with work and school, but when we have vacations we like to travel to new destinations, to educate our kids about different cultures. Travelling is the best tool for education of the new generation, to create tolerance and open their mind to different food, religious perspectives, music and theatre. It is another form of civilisation, the communication between different cultures. We always try to do that twice or thrice a year when we have the chance.”

He also likes cooking: “I believe it’s a form of love and passion, especially when I cook for friends and family: to enjoy those moments.”

Rayed also has “an expensive” hobby of collecting old photographs, dating back as early as 1855, and the beginning of photography in the days of mono prints based on silver nitrate.

A bright outlook

“Once the reforms are completed – and they will be completed – naturally the environment everything will become more stable and then growth will kick in effective 2018. The Saudi Arabian economy is very promising, and is huge, and all the GCC countries rely on this market,” Rayed emphasised.

‘We have increased our automation, not just in our production facilities, but we have also automated almost all of our administrative processes’

“If you look at the Saudi Arabian population of 30 million people, it is the largest. The country has the largest GDP and represents about 52% of GCC oil production – Unicoil’s respected shareholders Al Zamil and Al Rashed Group and the company management team believe that the alignment of what has been done will become very much into equilibrium to meet 2030 goals and objectives very soon.”

He noted that the Saudi Ministry of Finance has recently announced projections of more government spending in the 2018 budget to reboost the nation’s economy after it was slowing down in 2017 due to the massive structural transformation, “which is a natural phase.”

“For Unicoil, with all of its preparatory work made during the past years, we believe that we are more than ready to meet all of the market demands – both regional and international. We have completed our job. We have developed our projects, developed our lines, extended our lines’ production capabilities beyond the original and design capacities, and we have provided many solutions,” Rayed stressed. “We have increased our automation, not just in our production facilities, but we have also automated almost all of our administrative processes.”

He believes that Unicoil is the only steel company in the Middle East in this sector that sends clients an SMS text message when a truck carrying their order leaves its sites, as well as an e-mail notification with paperless documentation. The company also encourages customer feedback on their “delivery experience” via a questionnaire sent with every contract completed.

The company has targeted investments on areas where it can gain competitive advantage. Those have included equipment innovations to reduce lead times and make delivery faster, installation of a paint mixing facility in-house, replacing the need to procure paint outside, as well as solvent cost-reduction units.

Rayed added that some previously discrete production processes have been automated to contribute to increased productivity and downsize manpower. “We are currently in the

process to update our equipment to reduce our gas consumption,” he added, noting that a new higher energy tariff may be introduced in Saudi Arabia.

Although the steel industry in Saudi Arabia is showing a better growth rate than elsewhere in the world, the Middle East’s contribution to global steel production volume is about 2%. “But there is still positive scope for bigger business growth in this region. For example, Saudi Arabia in particular, as part of the Middle East, has a lot to offer and to be further utilised once the restructuring is over in the nation,” Rayed stressed. “The new governmental projects in manufacturing, such as automobiles – as well as the shortage of a national supply of hot rolled coils (HRC) and plates – will always be a great opportunity to expand through backward integration.”

He pointed to Saudi Arabia’s shortage of HRC supply (*see box panel*) in particular. “When China wanted to develop its economy in steel, they focused on flat products to increase their value-added industries – moving away from other industries that depend on oil or other ‘classical’ manufacturing,” he reminded.

“We are self-sufficient in long products and you cannot do much after [rolling] rebar, but in HRC, we in Saudi Arabia for example, only have a limited supply capacity of 2 million tpy, but Saudi market consumption is 3.4 million tpy.” Consequently Rayed stressed the opportunity to build additional domestic capacity to fill that large gap.

He added that consideration of the nature of some of the industries that can be served by the steel industry, such as special steels for military and shipbuilding industries, or car manufacturing, shows that there is potential for investment in those and the industries producing the materials that they need – boosting national employment and diversifying value-added manufacturing beyond oil-based industries. “To me, it’s Saudi’s Vision 2030,” which he says is not that well known by the public, but “I believe this proves there is a lot yet to be offered by the steel business in Saudi Arabia.”