

Revival of Saudi Coil Coating Industry - True Business Model

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Saudi Arabia is the largest Arab state in GCC (Gulf Co-operation Council consisting of Saudi Arabia, UAE, Kuwait, Qatar, Oman and Bahrain) by land area approximately 2,150,000 km² which is 80% of area in GCC. It has a population of 31 million which is 60% of GCC. It is the only nation in GCC with both a Red Sea coast and a Persian Gulf coast. Saudi Arabia's command economy is petroleum-based and it is the 2nd largest producer and exporter of oil in the World. Saudi Arabia is ranked No.25 in the list of global steel producing countries.

The apparent steel usage in Saudi Arabia in 2015 was 14.1 Million Mt and the domestic crude steel production was 6.3 million Mt and the balance 56% of the consumption is imported, making it a significant importing country of steel products. The steel demand in Saudi Arabia is forecast to reach 16.9 million Mt by 2020 at an average growth rate of 4.0%. The flat products (Hot rolled coils, Galvanized, Pre-painted) form 32% of the total steel consumption. Huge investments were made for projects in Saudi Arabia during 2015 totaling 106 Billion US dollars which is 58% of total investments made in GCC, showing robust economy until 2015 before the crisis in oil prices hit in 2016. In line with the stupendous growth in the economy of Saudi Arabia, the demand for steel in general and in particular for Pre-Painted Galvanized steel (coil coated products) also has gone up.

78% of Coil coated products are used in construction for External applications, 10% for internal applications, followed by 10% for Electrical equipment and 2% for appliance sector. 40% of the supplies are made directly to customers while 60% are supplied through Traders & Service Centers.

There are three coil coaters, with four lines, in Saudi Arabia with a total annual capacity of 380,000Mt. In UAE, the only country in GCC other than Saudi Arabia to have coil coaters, there are three coil coaters, with four lines. Unlike coil coaters in Saudi Arabia, coil coaters in UAE coat both Aluminium and Steel. So the annual capacity can vary between 220,000Mt to 320,000Mt, depending on the percentage of Aluminum. A total of six coil coaters in the whole GCC with an annual capacity of 600,000Mt to 700,000Mt and it is expected to reach 700,000Mt – 800,000Mt by end 2017 with addition of one more line in UAE, as shown in Fig.1

The consumption of pre-painted steel from 2013-2015 is shown in the graph-2 below, which shows an increasing trend both in Saudi Arabia and GCC, reaching 580,000Mt in GCC and 270,000Mt in Saudi

GCC - Color Coated Steel: Design Capacity (Metric Tons)

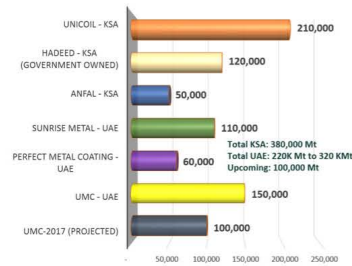


Fig 1

Consumption (2013-2015) (Million Tons)

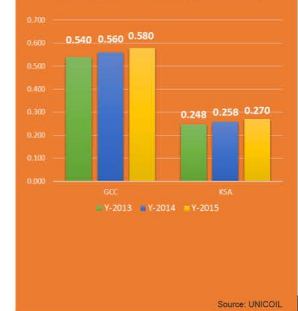


Fig 2

GCC Color Coated Steel - Imports and Capacity Utilization

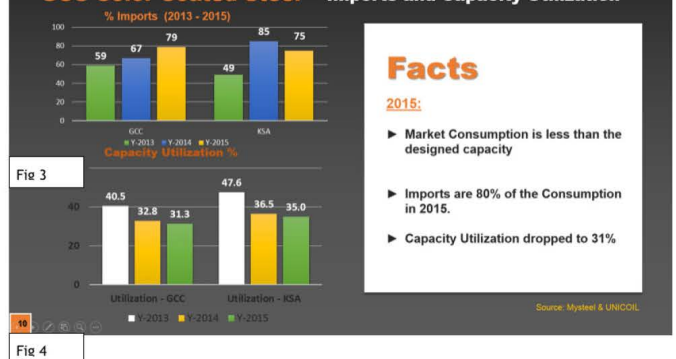


Fig 3

Fig 4

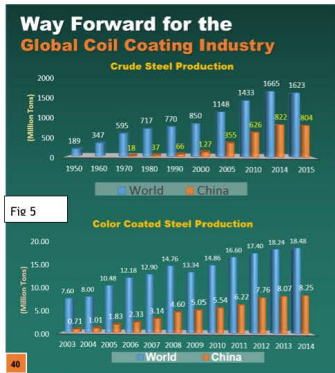
Arabia, much lower than the designed capacity of 380,000Mt. Fig -2 shows the consumption of Pre-painted Galvanized steel for 2013-2015.

The imports, which are presented as a percentage of consumption in Fig 3 reached 80% and the capacity utilization of domestic mills showed a decline to 31%, as shown in Fig 4. – A precarious situation threatening the survival of the Saudi Coil coating industry and that of GCC.

A comparison is made with the global steel production vs. China and exports from China. In Y-2015. Chinese crude steel production in 2015 is close to 50% of global crude steel production and the steel exports from China reached 112 Million Mt, which is 13.6% of Chinese steel production and it caused tremors in the global steel markets. Similar data for color coated steel shows production of coil coated steels is 44% of global production. Exports of coil coated steel from China reached 6.3 Million Mt which is 77% of its production and caused a "Tsunami" effect – which was mostly felt in Saudi Arabia and GCC, as other regions have their own protection mechanisms while the GCC and Saudi

Arabia did not have.

The following Figures -5 & 6 give the details of production and exports for crude steel and coil coated steel respectively.



Chinese steel exports are the game changer for the global market

The gap between Steel Production and Consumption in China is widening.

The excessive volumes of Steel Products are pushed into Global Market.

Steel Exports reached 112MMT in 2015 - 13.6% of Chinese Steel Production and created Cyclone in Global Steel Markets.

Export of Color Coated Steel reached 6.3MMT - 77% of Chinese production and the effect is "TSUNAMI"!!!!

Source: World Steel org

UNICOIL (Universal Metal Coating Company) is a private sector company, established in 1997, as a Joint venture between Bluescope steel (Formerly BHP steel), Zamil Holdings and Rashed Al-Rashed, for production of pre-painted steel with an annual capacity of 120,000Mt. In 2001, UNICOIL became a 100% Saudi owned company. In 2004, UNICOIL has undergone backward integration and established a Cold Mill Complex for production of 250,000Mt of Galvanized steel. In 2007, UNICOIL acquired another Coil coating company in Jeddah, increasing its capacity for production of Pre-painted Galvanized steel to 210,000Mt per annum and is the largest manufacturer of Pre-Painted Galvanized steel in the Middle East. For further details on UNICOIL, reader is requested to visit the company's website www.unicoil.com.sa

Situation in 2013 for Saudi Coil coating industry is summarized below:

- Inability to Compete with Low-Priced Imported Products
- Low Capacity Utilization and Continued Financial Losses
- Closure of Two Coil Coating Lines – one in UAE & one in KSA (Jeddah)
- Absence of National Standards
- Lack of Regulations & Controls
- Lack of Protection & Inadequate Support from Government
- Lack of Specialized Laboratories
- Absence of a Coil / Metal Coating Association

The multifaceted action plan to address the precarious/grave situation started with a massive research of purchasing sample sheets of imported materials, along with invoices, from various segments of the market in the kingdom and testing them in UNICOIL laboratory and three other independent laboratories in the kingdom. Samples are retained for any future reference. The parameters tested were, Thickness, Paint thickness, Zinc coating mass and

lead in paint.

The study discovered many violations of the parameters not meeting the specification requirements, as the components of a Pre-painted galvanized sheet cannot be seen by naked the eye. Violations are summarized below:

Summary of Violations:

- Thickness tolerances of ASTM standard been implemented on the extreme end of the negative side.
- Thickness on labeled imported products mismatch the actual measured thickness.
- Paint thickness is lower than ASTM standards for Pre-Painted Galvanized Steel.
- Non-disclosure of zinc coating mass on products' labels sold to end user.
- Presence of high Lead levels in organic coating and zinc coating are far more than the maximum Lead limit of (90 mg/kg).
- No origin declaration on the final sales unit sold to the end users (Linear Meter / Sheet).

The extreme values observed against standards are presented in Table 1 (Findings and Violations).

Findings & Violations

Facts Detected (Various Samples)

PARAMETER	STANDARDS	IMPORTED (ACTUAL)
Sheet's Thickness	✓ ¹ Declared on Product's Label (0.32 mm)	✗ Detected 0.26 mm
Zinc Coating Mass	✓ ² Recommended Minimum (180 g/m ²) ✓ ³ Mandatory Minimum of (90 g/m ²)	✗ Detected 18 g/m ²
Paint Thickness	✓ ⁴ Recommended Minimum (30 microns)	✗ Detected 13 microns
Lead in Paints	✓ ⁵ Mandatory Maximum(90 mg/kg)	✗ Detected 4,555 mg/kg

¹ Tolerance As Per ASTM standard A924-15 ⁴ Tolerance As Per ASTM standard A750-15
² Tolerance As Per ASTM standard A750-15 ⁵ Mandatory for Primer and Backer and advisory note for top coats as per ASTM A750-15
³ Mandatory minimum as per SASO ASTM A750-15

Table 1

UNICOIL continued its research at different periods over a duration of 2 years and the following table shows the increase in trend of violations for each parameter tested.

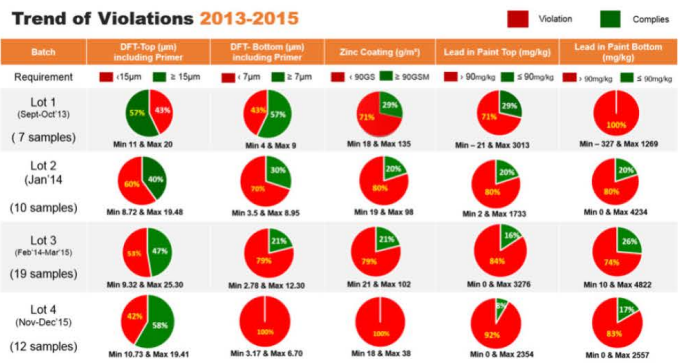


Fig.7

Subsequent to this valuable discovery of violations, the challenges are summarized as below:

Excessive imports from Far East in terms of:

- Volume
- Commercial parameter violations
- Technical parameter violations
- Health and environmental violations
- Prices below production cost
- Leading to Unfair Competition to the Local Manufacturers...!!!

At this juncture, UNICOIL had two options, “Follow the Existing Practices in the Market” or “Change the existing Practices in the Market” and UNICOIL adopted the 2nd Option – a Tough Option and made an action plan to address the challenges.

The actions to address the External challenges are identified as:

1. Educational Awareness Campaigns & Website
2. Regulatory Controls (Revision of Standards, PTD and Activation of the GCC Safeguard Instrument)

Few internal actions are also identified for making UNICOIL cost competitive and provide extra services to its customers, which are given below:

1. Partnership and Product Diversification
2. Cost Reduction & Downstream Projects
3. Acquiring Quality Marks & Lab Accreditation
4. Free Laboratory Test Services

UNICOIL established an infrastructure, as shown in the Fig 8 below, to educate various segments of the society on “product specifications and the impact of the violations on the performance of product, environment, and human health and on commercial parameters”. An informative educational website, was also created for all the agencies of the society, which can be accessed at any point of time.

As trade remedy instruments were not enforced in the GCC, UNICOIL first engaged with the competent authorities in the GCC and in GCC States to have them acknowledge that domestic industries injured by unfairly traded and/or rapidly increasing imports could seek the imposition of trade remedies. Further to an application filed by UNICOIL, evidencing that significantly increasing imports are causing serious injury to the domestic industry, on 9 June 2016, the GCC initiated the first ever safeguard investigation. This action was hailed by many. Even the Saudi Minister for commerce and investment said “It is a Historical achievement”.

Another important action was to establish National standards with a view to activate regulatory mechanism for testing the products by the customs at the borders. This involved discussions at ASTM (American Society for Testing of Materials) for necessary revisions, as the National standards body, SASO (Saudi Standards and Metrology Org), adopts ASTM standards. During the period of 2 years, three revisions were made in the relevant ASTM standards of ASTM A 653 and ASTM A755, incorporating limits on Lead in Zinc and Paint.

Simultaneous discussions with SASO resulted in SASO accepting to establish National standards with inclusions that are applicable to local conditions, apart from the revisions made by ASTM. The significant inclusions in SASO standards are “Mandatory Minimum zinc coating mass of 90gsm for pre-painted galvanized steel, max lead limit of 90mg/kg in paint for all layers and mandatory product marking on every linear meter of the product parameters, along with SASO standard number, Manufacturer’s name and the country of manufacturing, an example of such marking is given in the Fig 9 below:

External
Educational Awareness Campaign...

Creation of Infrastructure for Education

يونيكويل UNICOIL

اعرف صاجك الشيكو Know Your PPGI Sheets

Target Audience

A Multilingual Social & Educational Campaigns
(Arabic, English, Urdu and Tagalog) Addressed to:

1. Governmental Agencies
2. Steel Traders / Stockiest
3. Industrialists
4. Steel Fabricators
5. End Users
6. Public at Large

Tools

- Seminars
- Newspapers
- Flyers: 2.5million
- Weekly E-mails
- Outlet Roll-Ups
- FM Radio Campaign:
- Street Signs & Unipoles
- Specialized Periodicals
- Social Media
- Educational Website

Fig.8

External...
Regulatory Controls...

Product Transparency Declaration

"Printing of Product Parameters on Every Linear Meter"

Galvanized Steel (Sheet)

SASO Standard: UN 1016, USA - 0.50mm 0.75GSM

Pre-Painted Galvanized Steel Coils (Linear Meter)

UNICOIL USA 0.70mm 90GSM (20-10)MLC

Roll Formed Sheets (Linear Meter)

Fig.9

Interestingly, as a result of UNICOIL’s educational campaign, products from Far East started to appear with product marking, similar to what UNICOIL was

True Samples of Inconsistent Printing



doing. However, when such products with product marking were collected from the Market and tested, the violations remained the same as before proving this to be a simple case of forgery. Fig 10 shows an example of such inconsistent printing.

This prompted UNICOIL to alert the customers and end users, of the inconsistent printing on imported materials, through “Your Right” campaign. As there are no specialized laboratories in the kingdom for testing of the pre-painted products, UNICOIL, whose Laboratory is accredited by ILAC’s full member, DAC (Dubai Accreditation Center) offered free Laboratory testing services to all agencies, including the courier charges, as part of its commitment to social responsibility.

As part of internal improvement to provide and derive customer satisfaction, UNICOIL entered into a Technical partnership with an European Paint company and installed an in-house paint mixing station to reduce the delivery lead time to less than a week from the usual for weeks period and also reduced the Minimum order quantity from 25Mt to 5Mt, providing benefits to its valued customers. The technical partnership also enabled product diversification at UNICOIL to serve multifarious segments of the Market. Establishing the downstream units such as slitting lines, cut to length lines and roll forming lines is yet another action that made customers to find all products under one roof, thus making UNICOIL as the most preferred supplier.

UNICOIL achieved eight quality Marks & accreditations which include Quality Marks from “SASO (Saudi Standards, Metrology and Quality Organization) and ESMA (Emirates Authority for Standardization and Metrology), JSMO (Jordan Standards and Metrology), KQM (Kuwait standards Organization) and is certified for ISO 9001, 14001 and OHSAS 18001. The latest being the Laboratory accreditation by DAC (Dubai Accreditation Center). Acquiring such quality marks and accreditations in the neighboring countries provide opportunities for UNICOIL to participate in establishing the National standards in the regional countries across GCC.

Above actions have helped in positioning

Way Forward for the Global Coil Coating Industry

- ▶ Product Standards need to support the cause of the Industry.
- ▶ A working group can be formed to study the Market Violations and make Recommendations on Revision that will support Fair competition.
- ▶ From our point of view, the most important Revision to be considered is the addition of “Mandatory Product Marking to the standard on ASTM A765” (Marking Sheet Thickness, Zinc Coating Mass, Top and Bottom Paint Thickness ASTM Standard Number, Manufacturer’s Name and Country of Manufacturing) at regular intervals of every Linear Meter.

We ask NCCA to join our efforts to improve Transparency.

UNICOIL as a reliable manufacturer with strong quality fundamentals. UNICOIL trusts that the safeguard investigation it initiated will restore a sustainable market environment in the GCC and allow it to adjust to competition with ever-increasing low-priced imports.. Though leading developed and developing nations have protection mechanisms, which are not permanent, UNICOIL believes that the way forward to the Global coil industry is that it needs to elevate its Immune system for fair competition. 🚫