Middle East needs aggregates despite oil woes

Saudi Arabia will soon end tax-free living for its citizens as oil revenues continue to slump, but there are still many infrastructure megaprojects being carried out across the country and the rest of the Middle East region. Such megaprojects, and many smaller ones, offer opportunities for aggregate product producers. Guy Woodford reports.

Dubai is home to one of the latest attention-grabbing Middle East infrastructure megaprojects. The Emirati ruler, Mohammed bin Rashid Al Maktoum, is determined to transform the once non-descript Gulf port town into a key global city, with a 3km waterway through downtown Dubai - his current big ticket public work.

When fully opened in 2017, the waterway - which will be known as the Dubai Water Canal - will range in width from 80 to 100m and be six metres deep. The construction of the two billion dirhams (£664 million) canal is reportedly progressing at breakneck speed. It is due to be completed in September 2017, with Volvo Construction Equipment among the OEMs supplying key equipment for the project.

Dubai is an Emirate within the United Arab Emirates, which, when combined with the Gulf countries, is one of three distinct emirates in the Middle East region - with Saudi Arabia and Iran completing the trio.

Global aggregates production analysis by US-based Aggregate Association (USG) states that the Middle East makes up 4% of the 60 billion tonnes of aggregates produced globally in 2018. The region's production output is the same as Russia, CIS and Central, and one billion tonnes less than both the USA and Europe. China is the biggest aggregate producer in the world - accounting for 40% (29 billion tonnes) of output in 2018.

Leading global building materials players, such as LafargeHolcim and Cemex, have a strong presence in the Middle East.
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The growth, Timetric says, will be supported by increased government participation and investments in sectors such as healthcare, education and infrastructure construction to diversify the country’s economy away from the depressed oil sector. The Saudi Arabian government’s White Land Tax initiative to address the country’s housing shortage will also support industry growth. Timetric believes examples of the scores of Saudi Arabian infrastructure megaprojects, each worth at least $1 billion, reportedly underway or planned for completion by 2020, include the Riyadh Metro costing $8.6 billion (US$2.1 billion) and earmarked for completion by 2020 with 11 stations of 55 and 60 stations, it is the biggest project of its type in the world. Qatar and Kuwait are among the Gulf countries with growing construction sectors and, as such, boast strong aggregate demand.

Qatar’s construction growth is being driven by the National Vision 2030 — the country’s economic diversification policy — and football in the shape of its preparations for the 2022 FIFA World Cup. Meanwhile, Kuwait’s delivery of key infrastructure projects and investment in healthcare, educational facilities and new housing projects will see Timetric contribute to the future growth of the nation’s construction industry. Furthermore, the country’s Vision 2035, under which the government aims to develop the country’s road, rail, airport and related infrastructure, is also expected to drive construction equipment demand.

The lifting of nuclear weapon capability-related economic sanctions on Iran in January 2016 may have unlocked project investments worth up to $200 billion, but, as Timetric points out, there are certain risks associated with Iran’s construction industry include, most notably low oil prices, high labour costs, corruption and political instability. Falling oil prices are also expected to affect public government earnings from oil exports. Despite this, with national aggregate demand of at least 250 million homes/year, it’s a market still keenly eyed by aggregate producers.

Indeed, the construction market in Iran in 2016 was worth more than US$14 billion, according to the Italy-based Samoter-Veronaterra Observatory. The same source reports a full-scale boom in residential buildings: out of more than 1.5 million Iranian families, 1.12 million home-owners for a total of 13.5 million residential units, while demand in the future is around 750 thousand new homes/year. Iran was in the limelight at the Verona Exhibition Centre with its homebuyers and as the guest country of the 30th edition of Samoter, the internal exhibition dedicated to earthmoving, site and building machinery staged in Verona, Italy 22-25 February 2017. During the exhibition, a delegation from the Middle East country received the Samoter International Award for “considerable impulse given to sector development”.

The Samoter-Veronaterra Observatory and Euro Grani Expo, a company based in Italy and Iran providing a wide range of specific services especially tailored for SMEs looking to invest in the Iranian market, say that over and above major national projects such as the expansion of the rail and motorway networks and the modernisation of Qeshm and Kish Airports, there will need to be significant renovation investments in the private real estate sector. It is estimated that more than 14,600km of buildings will require safety work to meet regulations, since 50% of homes are more than 30 years old and the entire country is exposed to high earthquake risks. There is consequently strong demand for earthmoving and excavation machinery as well as cranes, prefabricated buildings, green solutions and anti-seismic products.

Eccentrically, the world’s biggest selling construction equipment manufacturer is a long-established trader in the Middle East region. Gary Martin, the US giant’s Middle East & Africa heavy construction & quarrying application specialist, says the demand for equipment in the Middle East is down due to a number of factors: government payment policies, low oil prices and the lack of international investment. "Heavy construction contractors are incurring more risks as payment from governments is being withheld for longer periods. After the downturn of 2018, construction and quarrying spending again between 2011 and 2013. Today, as companies struggle to stay afloat, and sometimes even to pay their staff on time, every dollar counts,” says Martin. He continues “With less construction projects awarded, the competition between
the aggregate supplier has grown more intense. In addition, a new tax of around 20% on the aggregate suppliers is now levied in the UAE for every tonne, which leaves the quantity on road.

"Equipment purchase can represent around 33% of the cost of a heavy construction project or even all the cost per tonne for a quarry. Some customers today purchase their equipment based on the initial equipment cost, whilst others take the long-term view and take into account the total owning and operating costs," Martin says.

The equipment for Qatar is currently less than 40% of what it was two years ago. He says a lot of work has yet to be completed in readiness for the 2022 World Cup and Caterpillar anticipates that equipment demand will increase within the next twelve months.

Turning his attention to the UAE, Martin says there has been much excitement about the vast expansion of the Al Makoura International Airport in the UAE. The airport will be built out from four new runways and more terminal space by 2020.

"The Gulf Railway project which will link the six Gulf Cooperation Council member states hasn’t materialized yet," adds Martin. "This is now open for the major contracts for the 2020 Expo and work is expected to start before the end of 2017. Another $4 billion is reportedly to be awarded."

"Doha has also just started to award $2 billion in road construction, dam and port projects without major International involvement, unlike some of its neighbours." Martin notes that Saudi Arabia’s good times from 2008 until 2015 when oil demand and price were at their highest.

As stated earlier in this Market Report, Caterpillar was busy bidding for contracts in the Middle East.

"Oil revenues fell in 2016 and again in 2017, with the Saudi government cutting public spending and halting a number of investment projects. However, moving forward, Martin is encouraged by the Saudis renewed focus on infrastructure and transport.

"Expenditure is set to grow from $38 billion in 2016 to $62 billion in 2017. This funding will in part be used to settle delayed payments for projects that are already in progress. In 2018, to keep prices down and fulfill local government-funded infrastructure projects, Saudi Arabia imposed a ban on cement exports. The export ban will be lifted during 2017 which is good news for Qatar, the main importer of Saudi cement, which needs to complete its projects in preparation for the 2022 World Cup. According to official data, Qatar will require an estimated 37,000,000 tonnes of cement before 2022."

"With government funding delayed, Martin says projects take longer to mature, but contractors still need to complete on time. "As a result, we’ve seen demand spikes for highly productive models such as our Cat 349E wheel loader, 374F excavator, 749C articulated truck, 14x motor grader and dozers from D6R to D9R. These are very popular with contractors and quarry owners as they require fewer operating costs and flexibility for a maximum return on investment."

Martin says the past five years have shown a slow shift, mainly in Qatar and the UAE, towards implementing environmental credits within the bidding process for major governmental projects, as is common practice in Europe.

Luis Santos, senior vice president ABNET Middle East and Turkey for Herrenknecht Mining and Construction, says competition between Middle East aggregate producers has intensified in the last year, with Saudi Arabia – the region’s biggest national market – seeing its aggregate demand deteriorate even further, mainly due to plummeting oil prices.

However, Santos believes that the end of 2017 into early 2018 will see the start of the recovery in aggregate demand across the whole of the Middle East.

From a product standpoint, the aggregate producers are using more and more stationary modular plants (crushing and screening), semi-containerized systems can also substitute for mobile units, continuous mining. The biggest issue in the region is finding ways to significantly lower aggregate-based operational costs. This is driving investment in simple and automated solutions, such as Herrenknecht’s latest automated products, including Herrenknecht’s intelligent automation packages. In spite of their lower energy bill, most of the existing Middle East quarters will still operate with high costs, even higher than in the EU.

Saudi does not foresee major changes in aggregate demand in the Middle East for the next five years. It adds “Let’s see developments in KSA (Kingdom of Saudi Arabia) as well as market changes in Iran. These two countries may make Middle East aggregate market growth a bit more aggressive.”