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KEY POINTS

- Omani demand has accelerated quickly in the last 2-3 years. This reflects a major effort to diversify the economy and has led to investment in infrastructure in new geographic locations. Demographic pressures of a rising young population is one driving force for economic diversification.

- We estimate that total steel demand could hit 1.5m tonnes in 2014 compared to just 0.6m tonnes in 2009.

- Moreover, the investment level is continuing and we see further growth in 2015/16 with steel demand reaching 2m tpy by 2018.

- Oman is becoming a medium-sized steel producer in the region.

- Jindal Shadeed brought on its billet mill in 2014 and will steadily ramp-up capacity through 2015, when it will also commence operations on its rebar mill.

- Sharq Sohar, Muscat Iron & Steel and Jazeera Steel also all completed investments in 2014.

- This will drive finished steel output sharply higher in 2015/16. At that point, Oman will move to being a net importer of steel to a net exporter.

- It will however remain an importer of flat rolled steel. Demand here has not seen such explosive growth, but we believe that it will grow close to 10% on average for the next few years. Higher utilisation rates at tubular mills along with construction products investment should see flat steel demand double by 2020. We continue to expect that this will all be imported.

- However, we are sceptical that additional capacity will be added as is proposed by Sun Steel and Moon Steel. Feasibility studies have been submitted but in our opinion, there is no additional gas availability for large-scale DRI projects. Moreover, we expect Oman to become a net importer of scrap from 2015 to feed its minimills. With Jindal ramping up output of steel products, we believe it will exit the DRI merchant market by 2016 and it may actually import DRI to meet its additional needs. As such, sourcing raw materials will be difficult for the new mills while they will have to be export-oriented to maintain output and that will be difficult without being cost-competitive.

8.1 Economic Outlook

Omani GDP growth has been between 4-6% per annum since 2009, but is forecast to slow in the near term. The population has been growing quickly but the government finances remain robust.
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Table 8.1: Omani Economic Data

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</tr>
</thead>
<tbody>
<tr>
<td>GDP (%)</td>
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<td>4.8</td>
<td>4.1</td>
<td>5.8</td>
<td>4.8</td>
<td>3.4</td>
<td>3.4</td>
<td>3.4</td>
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<tr>
<td>Consumer Inflation (%)</td>
<td>3.5</td>
<td>3.3</td>
<td>4.0</td>
<td>2.9</td>
<td>1.2</td>
<td>2.8</td>
<td>2.8</td>
<td>3.7</td>
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<tr>
<td>Population (m)</td>
<td>2.90</td>
<td>2.92</td>
<td>3.03</td>
<td>3.31</td>
<td>3.63</td>
<td>3.66</td>
<td>3.75</td>
<td>n/a</td>
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<tr>
<td>GDP per capita (US$ at PPP)</td>
<td>24,677</td>
<td>23,273</td>
<td>24,641</td>
<td>24,536</td>
<td>25,540</td>
<td>26,553</td>
<td>27,590</td>
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<tr>
<td>Government balance (% of GDP)</td>
<td>0.4</td>
<td>(3.7)</td>
<td>(0.2)</td>
<td>6.5</td>
<td>9.2</td>
<td>2.6</td>
<td>2.3</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: IMF, Economist

The kingdom remains dependent on oil and gas revenues, but has made efforts to diversify its economy over the last five years as oil and gas reserves are running low and has focused on the development of heavy industry around Sohar along with finance, tourism and services around the capital Muscat. Oil is expected to fall from 46% of the economy in 1996 to 9% in 2020.

There were some political disturbances in early 2011, but the kingdom remains relatively popular and the political response of channelling more money into infrastructure and social support is likely to be reasonably successful in the short term. It is also likely to result in further investment to stimulate employment. Based on current output levels and without new discoveries, oil may run out within 20 years, although enhanced oil recovery techniques could boost that as would new discoveries. In 2011, the government commenced a 5-year programme of infrastructure investment totalling $78bn.

The current value of projects in the kingdom is estimated at $145bn – a major step-up in the overall expenditure.

Transport construction accounts for 66% of the total. Key projects include:

- New roads - $4.4bn
- 6 new airports and expansion of existing ones – around $4bn
- Port of Sohar investment - $12bn
- GCC railway - $14bn
- Duqm Port - $12bn
- National Rail Project - $22.9bn

Energy & Resources account for 25% of the total. Key projects include:

- $2bn on renewable projects including solar power plant and solar panel production facility
- Khazzan, Kish and Makarem gas field & pipeline - $12bn
- Sur power plant - $1.5bn
- Haya Water Project - $1bn
Prior to 2006, non-GCC nationals were unable to secure property and this limited real estate investment. After the loosening of those regulations, there was a marked pick-up in activity. However, it was over-built and suffered a correction in 2009-10. The market stabilised in 2011 however and picked-up in 2012. However, the scope for a major pick-up in residential activity is limited. The commercial property sector was also over-built during the same period and it continues to struggle with limited current investment.

8.2 Capacity & Producers
Oman has developed a medium-sized, independent steel industry including a number of small steelmaking sites, as well as finishing operations and export-oriented tubular operations. The small domestically-oriented scrap-fed EAFs are Sharq Sohar and Modern Steel, but these have been joined by other steel companies with other potential investors also preparing to enter the steel market.

Sharq Sohar
Originally a re-roller that started up in 1996, rebar capacity was upgraded in 2004 to a capacity of 300,000 tpy. Output is of 8-32mm material. In July 2008, it brought on-stream a 250,000 tpy scrap-fed EAF. Some material is exported to the GCC area and the UAE in particular, although sales have been made to Iran and Saudi Arabia as well, but in the last 2 years, around 90% has been sold to the domestic market. Additional billets were typically sourced from Ukraine and Turkey.

In 2014, Sharq Sohar upgraded its EAF to 750,000 tpy. It also re-located the 500,000 tpy RAK steel rebar mill from the UAE to Oman to balance the EAF. This will result in the company in approximate balance as the old mill will focus on smaller sizes (thus reducing its ability to operate at full capacity). It sources some DRI from Jindal Shadeed along with local scrap.

Modern Steel
This is owned by the Assarain and other groups, which started an 80,000 tpy EAF, whose capacity has been incrementally upgraded and we now estimate is realistically at 160,000 tpy, some of which is exported to other GCC countries. This will be expanded over the next 2-3 years to 200,000 tpy. The company has considered downstream investment and expansions, but we expect these to continue to be incremental in nature. With the start-up of Shadeed and the expansion of Sharq Sohar, it may find it a more competitive market, while scrap sourcing will also be more competitive with the backward integration of Sharq Sohar.

Hadid Majan
This was a 36,000 tpy re-roller of rebar for 8-25mm rebar that upgraded to 60,000 tpy in 2008. It added another 150,000 tpy rebar line in 2012. This also expanded the product range to 32mm. It sources billet domestically from Modern Steel and from imports, which it will probably replace with material from Jindal from 2014. All sales are to the domestic market.

Muscat Steel
Located in Muscat, this has operated a 150,000 tpy 8-32mm rebar mill using imported billet. It also has a cut and bend facility. The company installed a 200,000 tpy EAF in 2014 and will install a second 150,000 tpy rebar mill in 2015. All material is currently sold on the domestic market. The mill has primarily used scrap as its primary melt feed, but has not ruled out the possibility of DRI.

Jazeera Steel Product (JSP)
This company started up a merchant bar facility in 2009. Production was 101,000 tonnes in 2011 (and 165,000 tonnes of welded pipe). It was aiming to produce 130,000 tonnes in 2012, but ended up producing approximately 113,000 tonnes. This slipped in 2013 to 111,000 tonnes. Around 85% is exported. It will probably source billet in the medium term from Jindal. It can make:
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- Channels 50-100mm
- Equal angles 25-80mm
- Flat bar 40-100mm
- Square bar 12-75mm
- Round bar 16-50mm

In 2014, it converted the mill to be able to produce rebar, although commercial output is not expected to be until early 2015. We estimate that capacity will be split around 50:50 merchant bar and rebar, which will allow the mill to operate at higher utilisation rates. It is targeting total output of 150,000 tonnes in 2014 rising to more than 200,000 tonnes in 2015 as it makes more rebar.

Jindal Steel Oman

The much-delayed Shadeed Steel (now Jindal Shadeed Steel Oman) finally saw commercial production of HBI in January 2011. It has operated the DRI plant at full capacity since 2012.

The company then started work on the EAF and casting facilities, with production of up to 2m tpy of round and square billet brought on line in Q2 2014. At full capacity, it would make 1.6m tpy of square billet and up to 400,000 tpy of round billet.

The company has ordered a 1.4m tpy rebar line that is due on-stream in mid-2015, which will include an option to roll up to 200,000 tpy of wire rod. Beyond that, the company is undertaking a feasibility study for the development of additional finishing lines, but we do not expect these to be developed prior to 2015, and we have forecast that it will remain a billet supplier out to 2018 as well. The proposed finishing lines include a medium sections mill and a seamless pipe line. Prior to that, it will supply billet to the domestic re-rollers and export as well as export. Alternatively the company could acquire regional re-rolling assets rather than build them itself. We are also somewhat sceptical on whether the medium section mill will be built, but we have included some limited output from 2016. We do not believe that the seamless pipe mill will be built due to excess regional capacity of this product.

It is also proposing to increase HBI capacity to 1.8m tpy in 2013 and then double to 3.6m tpy by 2015. However, we understand that it does not have access to gas for the second stage expansion and have therefore not included it in our forecast.

In 2014, it continued to sell DRI to the local and regional market as it ramped up output and we expect some sales in 2015. In fact, on the assumption that it does not ramp up to full capacity at its downstream facilities until 2017, we would expect DRI to remain part of the product mix.

Table 8.2: Existing capacity in Oman

<table>
<thead>
<tr>
<th>Company</th>
<th>Type</th>
<th>DRI</th>
<th>Crude</th>
<th>Rebar</th>
<th>Rod</th>
<th>Sections</th>
<th>HRC</th>
<th>CRC</th>
<th>HDG</th>
<th>HRP</th>
<th>2013 (est.)</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jindal Shadeed</td>
<td>DRI</td>
<td>1,500</td>
<td>2,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,500</td>
<td>Crude in 2014</td>
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<tr>
<td>Sharq Sohar</td>
<td>EAF</td>
<td>750</td>
<td>800</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>250</td>
<td>Cap increase in 2014</td>
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<tr>
<td>Hadid Majan</td>
<td>RR</td>
<td>210</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>175</td>
<td>Rebar</td>
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<tr>
<td>Modern Steel</td>
<td>EAF</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>150</td>
<td>Crude</td>
</tr>
<tr>
<td>Muscat Steel</td>
<td>RR</td>
<td>200</td>
<td>150</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>120</td>
<td>Rebar</td>
</tr>
<tr>
<td>Jazeera Steel</td>
<td>RR</td>
<td>150</td>
<td>150</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>150</td>
<td>Merchant Bar</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
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<td>1,310</td>
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</table>

See www.metalbulletinresearch.com for more information
There are a number of proposed projects in Oman:

- In late 2013, Moon Iron & Steel secured some financing for a 1.2m tpy EAF with 700,000 tpy of rebar. It would source 70% scrap and 30% DRI and sell up to 500,000 tpy of merchant billet. Initial plans are for production in 2015, but given the rising capacity for rebar and lack of operating experience, we are somewhat sceptical of this project and have not included it in our forecast for production.

- Oman Oil Company has also indicated that it may seek to build a DRI-EAF in the medium-term at Duqm, but this is an early stage project and we have not included it in our outlook. It would have the advantage of securing gas supply and already owns a minority share in Vale Oman.

- Sun Metals has an even more aggressive project. It plans to build 2 EAFs with a combined capacity of 2.5m tpy in Sur. It signed up Posco as the equipment provider and Japanese trader Sojitz as an offtake partner. The project includes melting up to 100,000 tpy of stainless billet and stainless seamless pipe, 1.2m tpy of rebar and potentially 1m tpy of SBQ engineering steels, which are not currently produced in the GCC. However, it lacks financing and we have assumed that this will not be developed. The project budget of $400m looks totally inadequate for example.

### Table 8.3: Proposed capacity in Oman

<table>
<thead>
<tr>
<th>Company</th>
<th>Type</th>
<th>DRI</th>
<th>Crude</th>
<th>Rebar</th>
<th>Rod</th>
<th>Sections</th>
<th>HRC</th>
<th>CRC</th>
<th>HDG</th>
<th>HRP</th>
<th>Notes</th>
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<tr>
<td>Jindal Shadeed</td>
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<td>(275)</td>
<td>1,400</td>
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<td>275</td>
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<td>2016+</td>
</tr>
<tr>
<td>Jindal Shadeed</td>
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<td></td>
<td>275</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2015</td>
</tr>
<tr>
<td>Jindal Shadeed</td>
<td></td>
<td></td>
<td>400</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td>2015</td>
</tr>
<tr>
<td>Muscat Steel</td>
<td></td>
<td></td>
<td>150</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2015</td>
</tr>
<tr>
<td>Moon Iron &amp; Steel</td>
<td>EAF</td>
<td></td>
<td>1,200</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2017+</td>
</tr>
<tr>
<td>Sun Metals</td>
<td>EAF</td>
<td></td>
<td>2,500</td>
<td>1,200</td>
<td>500</td>
<td>500</td>
<td></td>
<td></td>
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<td></td>
<td>2017+</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
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<td>0</td>
<td>3,700</td>
<td>2,475</td>
<td>775</td>
<td>900</td>
<td>0</td>
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</tr>
</tbody>
</table>

### 8.3 Raw Materials

Crude steel output is set to rise from 300,000 tpy to almost 3m tpy by the end of the period – indeed there could be more if some of the additional capacity planned is also developed. That will result in a significant change in the country’s raw material balance.

In 2011, Vale commissioned a 4.5m tpy pellet-making facility in the second quarter and a second later in the year taking capacity to 9m tpy. Output in 2013 was 8.28m tonnes and was up 4% in the first three quarters of 2014. Pellet feeds the local Jindal plant as well as regional DRI producers and has signed contracts with Qatar Steel and others. Vale is undertaking a feasibility study to double capacity to 18m tpy. However, we have revised our opinion on whether this will go-ahead. One issue is that although the regional market is under-supplied, VALE does have spare capacity in Brazil that it is not operating. In addition, we believe that sourcing gas may be an issue for the company. As such, we have not included further expansion in our forecast.

GIIC-parent Foulath/Bahrain Steel has plans to build a 7m tpy plant in Oman, with Jindal also indicating that it may build a 5m tpy plant. As yet neither of these projects is confirmed and neither is included in our long-term forecast. Sourcing both raw materials and natural gas is an issue for both projects.
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There are some local iron ore deposits. Sun Metals owns concessions in Ibra (south of Muscat) with an estimated reserve of 40m tonnes (primarily haematite). It has a proposal to beneficiate the iron ore to 65% Fe via concentration and then construct a DRI plant to feed its downstream plans. However, it is MBR’s view that this project is unlikely to be developed in its current form. The company lacks access to gas for the DRI project and the mined concentrate would have to be pelletised as well. In our raw material forecast, we have assumed that this project will not be developed.

Jindal Steel Oman with a nameplate capacity of 1.5m tpy started commercial production of HBI in January 2011. Sales were initially made to the local and regional market, with Sharq Sohar taking up to 100,000 tpy for example. It reached full capacity in 2012 and is now operating slightly above nameplate capacity. In Q2 2014, it commenced production at its EAF-billet plant – see above – and this will reduce HBI exports from 2014, although it may continue to sell material through to 2015.

In fact, this may result in rising imports of DRI to feed Sharq Sohar and even Jindal. With 1.5m tpy of DRI and 2m tpy of EAF capacity, Jindal Oman will need at least 650,000 tpy of scrap for its operation, while Sharq Sohar will need around 600,000 tpy of metallics as well. While some will be generated as home scrap, there is a limited scrap resource in Oman (albeit growing) and as a result, there will be significant imports of scrap required – up to 800,000 tpy. Given the paucity in the region, this will probably be from Europe. While scrap exports currently exist (primarily containerised to India), we expect these to fall, but the quality of these may not be suitable for the local EAFs. Indeed, there may be pressure for a scrap export ban.

Moreover, we consider the paucity of local scrap to be a major concern for the new mills (Moon Steel and Sun Steel) that are being proposed. While DRI offers an alternative, the key issue here is whether the private sector will get additional gas allocations – we consider it unlikely.

Table 8.4: Omani raw material balance (000 tonnes)

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<td>0</td>
<td>2,100</td>
<td>6,624</td>
<td>8,280</td>
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<td>A. Consumption</td>
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<td>2,179</td>
<td>2,339</td>
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<td>DRI</td>
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<tr>
<td>Output</td>
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<td>1,110</td>
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*VALE imports concentrate and exports/produces pellet. MBR has classified pellet as output and disregard imports.

8.4 Long Product Markets

Long product capacity is rising from less than 1m tpy to over 3.5m tpy over the forecast period.

Billet production will rise sharply and Oman will be a major net exporter over 2014-15 as Jindal Oman ramps up its EAF before bringing on its rolling lines. However, by 2016 it will reduce exports as it ramps up its 1.5m tpy rebar and rod line and then even further as it adds additional finishing capacity – probably medium sections. At that point, Jindal will be fully integrated and re-rollers (e.g. JSP) will have to return to importing billet. However, if Jindal Shaddeed does not add a HR section line, it will remain a billet exporter.
Chapter 8 – Oman

Oman is currently a small net rebar importer, but it will shift to significant exports over 2015/16 with exports of up to 1.4m tonnes. Although we are forecasting strong growth in rebar demand, we expect output to jump to 2.25m tpy as capacity rises from 660,000 tpy to 2.5m tpy.

Gulf Specialty Steel Industries started a 60,000 tpy galvanized wire facility in Sohar in the second half of 2013. A joint-venture between Global Steel Industries of Singapore and Takamul, it will import wire rod for drawing and galvanizing. The other major wire rod consumer is Oman Cable Company, which is also expanding its power cable business and buys wire rod. This will drive wire rod demand sharply higher over 2014-15 on a proportionate basis. This is primarily imported material now from Gulf sources, with China significant in 2014. However, as Jindal brings on its capacity, we would expect this to displace imports and also result in net exports.

Oman is a significant exporter of light sections from JSP and we have assumed that it will be joined by Jindal Oman from 2016/17.

Long steel demand bounced back in 2010 after sharp decline from Q3 2008. Rebar accounts for the majority of demand and was around 600,000 tonnes in 2010. There was a small increase in demand in 2011, but there has been a significant increase in 2012/14 as public sector expenditure increases on infrastructure investments. We believe that rebar demand alone was around 700,000 tonnes in 2013. We believe that it will grow further over the next five years and consumption will exceed 1m tpy, which it almost reached in 2014, as significant volumes of Chinese rebar (around 150,000 tonnes) entered the market.

Table 8.5: Omani long product balance (000 tonnes)

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8.5 Flat Steel Markets

Flat steel demand is driven by the tubular sector. Jazeera Steel has 300,000 tpy of ERW capacity, and output was 165,000 tonnes in 2011, 182,000 tonnes in 2012 and 180,000 tonnes in 2013. It sources HR coil from the CIS, India, Saudi and globally. We expect output to remain at the current level.

It was joined by the 250,000 tpy GIPI mill in 2010, when initial output was around 50,000 tpy and is now rising. GIPI was acquired by TMK in 2012 with the deal closing in 2013, which should provide a boost to
output given the group’s marketing power. We expect output will be around 100,000 tonnes in 2014 with sales of welded OCTG and linepipe. It sources HR coil from Posco, SABIC and ThyssenKrupp.

With other demand accounting for up to 150,000 tpy by 2015, flat steel demand will show significant growth over 2010-15 – more than doubling to 400,000 tonnes. Beyond that, growth will slow. Galvanized is also growing strongly – feeding the construction market in the country. That may be the fastest growing product in percentage terms in the near future. India and China are the key suppliers along with GCC producers.

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<td>Exports</td>
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<td>Exports</td>
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% change: 25.1% 15.8% 5.7% (28.1%) 41.7% (11.8%) 22.5% 8.0% 7.7% 21.4% 6.9% 5.5% 5.2% 5.1% 4.1%

Source: MBR

8.6 Total Steel Market Outlook
Oman has developed a medium-sized steel industry and crude output is expected to rise to 3m tpy by 2017. From a net importer, we expect it to be a net exporter of long products from 2015 despite strong growth in demand. Flat product demand will also grow quickly – albeit from a much lower base – this will continue to be imported.

By 2020, total steel demand is expected to surpass 2m tonnes – a more than doubling from 2011 levels – thanks to a big increase in steel-consuming industries such as wire and tubular products, but primarily due to a major infrastructure build and economic diversification that will require construction activity. The bulk of the increase in demand will come over the period 2012-16.
### Chapter 8 – Oman

#### Table 8.7: Omani steel market summary (000 tonnes)

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