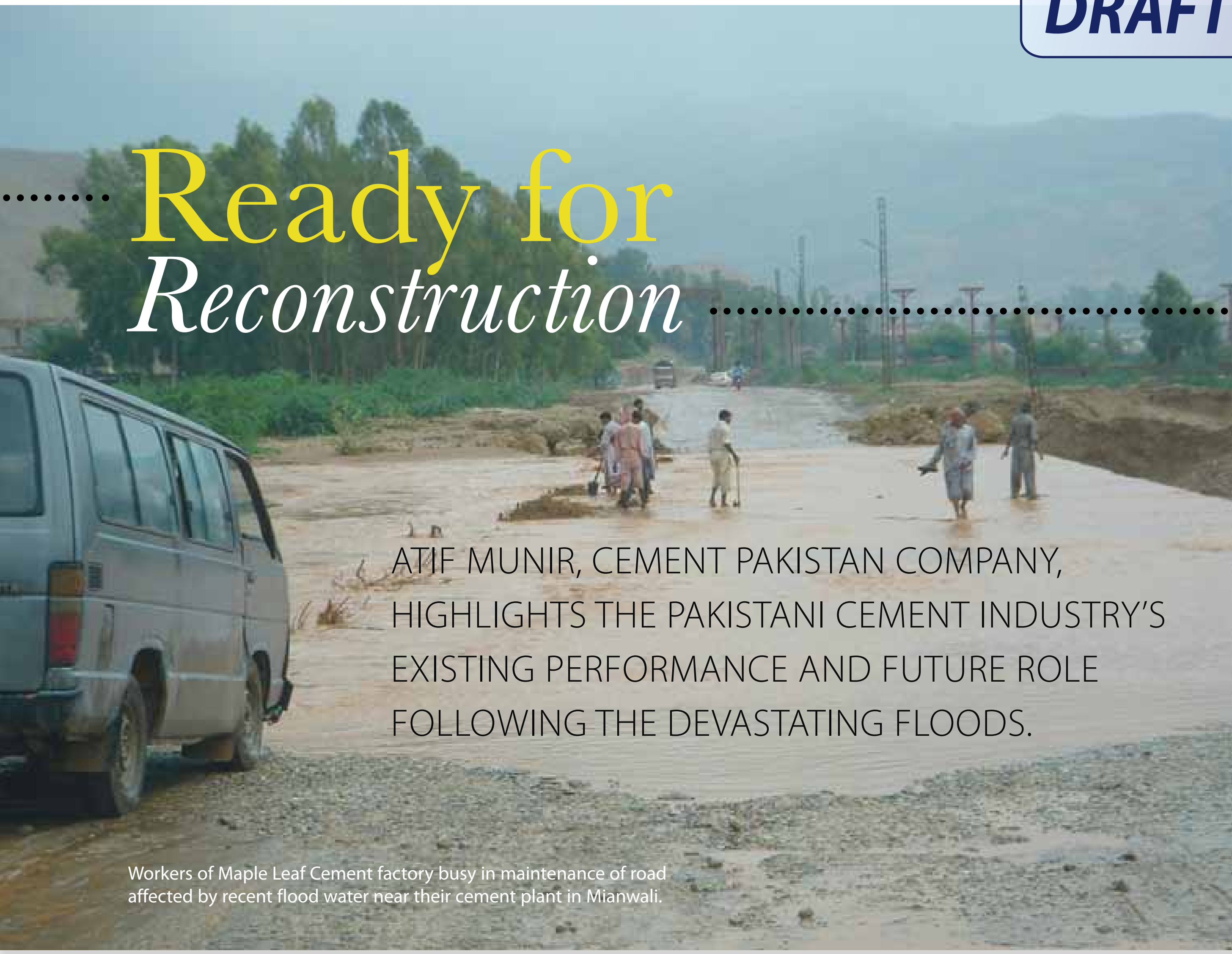

Ready for *Reconstruction*

ATIF MUNIR, CEMENT PAKISTAN COMPANY, HIGHLIGHTS THE PAKISTANI CEMENT INDUSTRY'S EXISTING PERFORMANCE AND FUTURE ROLE FOLLOWING THE DEVASTATING FLOODS.

Workers of Maple Leaf Cement factory busy in maintenance of road affected by recent flood water near their cement plant in Mianwali.

Introduction

By 30 June 2010, the end of the 2009/10 fiscal year, the total sales volume of the Pakistan cement industry stood at 34.2 million t, its highest ever figure. Its growth was respectable, at 9.3%, while the total sales volume of the preceding year was 31.2 million t. The local sales volume grew by a healthy 14.6%, and also achieved its highest ever figure in national history, at 23.5 million t. This growth occurred despite the fact that government expenditure on public sector development projects decreased during that period.

The local growth can be explained by sales in the rural economy, which occurred as a result of improved agriculture support prices, along with private sector sales. As far as exports were concerned, 10.6 million t of cement and clinker were exported, in comparison to 10.7 million t in the previous year, while the industry's export sales broke even.

The FY10/11 figures, however, were in contrast to this period of growth, as there was a drop of 19% in the total dispatches of cement to 2.4 million t during August 2010, in comparison with the same stage of the

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Fauji Cement new 7200 tpd cement plant is expected to start production by the end of year 2010.

previous year, according to figures distributed by the All Pakistan Cement Manufacturers Association (APCMA).

Local sales

In June 2010, sales of cement in Pakistan were counted at 2.09 million t. By July 2010, however, a reduction of 16% in cement sales was recorded, with the figure standing at just 1.75 million t, according to data acquired by the APMCA. This is not hugely surprising however, and does not go against previous trends, as cement sales typically decrease during the monsoon season in Pakistan, which occurs in July. This trend is further supported by the sales figures of July 2009, where sales decreased by 12%. In 2010, however, the decrease in cement sales has been more dramatic and can be explained by the increased rainfall and resultant floods that affected the region at the end of July. While the rainfall and floods affected construction in Pakistan, the floods themselves hugely disrupted communications and logistics, which also detrimentally affected the local cement sales figures.

Export figures also showed a decline, with a monthly reduction of 15% and a reduction of 31% y/y. The total figure for July was 775 000 t. There are two principal reasons for this decline. As far as the monthly figures are concerned, this was a result of the lack of an inland freight subsidy. The reduction in yearly figures was as a result of higher overall prices in the sector. When export and local sales figures are combined, the total dispatches come to 250 000 t, which comes to a reduction of 16% on a monthly basis. The total decline y/y is 12%.

There was no recovery in August 2010, however, as a direct result of the flooding, and also due to the slowdown in the construction industry that usually occurs during the month of Ramadan. There is some expectation that sales may recover during the beginning of the 2011/12 financial year; this is due to the fact that extensive rebuilding will be necessary in regions that have suffered severe damage during the recent floods. This would be a similar situation to what was witnessed in the aftermath of the earthquake that occurred in 2005, when cement sales increased dramatically during the rebuilding stage.

Prior to 2011, however, further decreases in cement dispatches are expected. In August 2010 for example, cement dispatches reduced by between 20 – 30%. As a knock-on effect of this decline, the sale price of cement during September and October is expected to see a reduction of about Rs.10 – 20 per bag. Prices should return to their original figures once rebuilding starts during the coming months, while the cement sales figures should be restored by the latter half of 2011.

Additional funds should be supplied to the industry as a result of aid donations targeted at rebuilding, from organisations such as the World Bank (WB), the United Nations, and other charitable agencies. In excess of US$1 billion has been pledged to date, with US$900 million of that in the form of a loan from the WB. The infrastructure, housing and agriculture industries have been the most severely affected, according to preliminary estimates released by the WB.

When compared with data from 2009, a fall of 25% is evident in the local dispatches figures, which are currently at approximately 1.51 million t. Again, this is as a result of the floods and their disruption of communications. Throughout the month of August, the provinces of Khyber-Pakhtunkhwa, Punjab and Sindh were under flood waters, which affect the movement of cement dispatches and raw materials in those regions.

Table 1. Cement and clinker exports (t)

	Cement			Clinker		
Years	Afghanistan via land	India via sea and land	Other countries via sea	Other countries via sea	Total	% increase (Dec)
2001-2002	106 620	-	-	-	106 620	100.00
2002-2003	430 322	-	-	41 500	471 822	342.53
2003-2004	1 118 293	-	-	-	1 118 293	137.02
2004-2005	1 407 900	-	157 270	-	1 565 170	39.96
2005-2006	1 413 994	-	91 165	-	1 505 159	-3.83
2006-2007	1 725 526	-	1 071 928	390 973	3 188 427	111.83
2007-2008	2 777 826	786 672	3 045 995	1 106 127	7 716 620	142.02
2008-2009	3 148 306	634 455	6 061 035	908 690	10 752 486	39.34
2009-2010	4 013 671	722 967	5 637 163	283 436	10 657 237	-0.89

DG Khan Cement Khairpur plant achieved record 346 operational days during 2009 – 2010.

Khyber-Pakhtunkhwa (KP) has suffered the most, with many bridges and roads being completely wiped out. Local dispatches in this area are therefore expected to remain low.

Dispatch figures are expected to gradually recover, with some slight improvements in October, although dispatches will remain low in comparison to previous years' figures. It is also not possible to determine what losses or damages have been inflicted on manufacturers in regions that have been affected by the floods, as reviews have not yet been carried out. This information is not expected to be available until after the Eid holidays.

Exports

There was a huge slowdown in the growth of cement exports in Pakistan during the first nine months of the fiscal year 2009 - 2010. In this period, exports of this kind grew by 64%. However, in 9MFY09/10 this figure stood at just 4%. This can be explained by examining

Table 2. Pakistani cement industry (operational units data)

July to June	Production capacity (million t)	% increase	Local dispatches (million t)	% increase (Dec)	Exports (million t)	% increase (Dec)	Total despatches (million t)	% increase	Capacity utilisation %	Surplus capacity (million t)
2000-2001	15.534	-5.16	9.933	-0.04	-	0.00	9.933	-0.04	63.95	5.600
2001-2002	15.723	1.22	9.833	-1.01	0.107	100.00	9.940	0.06	63.22	5.783
2002-2003	16.321	3.81	10.980	11.66	0.430	303.60	11.410	14.80	69.91	4.911
2003-2004	16.936	3.77	12.545	14.25	1.160	169.52	13.705	20.11	80.92	3.231
2004-2005	17.909	5.75	14.788	17.88	1.565	34.95	16.353	19.33	91.32	1.555
2005-2006	20.955	17.01	16.907	14.33	1.505	-3.83	18.412	12.59	87.87	2.543
2006-2007	30.251	44.36	21.034	24.41	3.188	111.83	24.223	31.56	80.07	6.028
2007-2008	37.157	22.83	22.577	7.33	7.717	142.02	30.293	25.06	81.53	6.863
2008-2009	41.760	12.39	20.533	-9.05	10.752	39.34	31.286	3.28	74.92	10.475
2009-2010	44.824	7.33	23.538	14.63	10.657	-0.89	34.195	9.30	76.29	10.628

the slowdown in construction in six Gulf Arab nations, which make up the Gulf Cooperation Council (GCC). This had a knock-on effect on the cement export figures in Pakistan. However, there was significant growth in the cement export figures to other African nations.

As a result of this demand for cement in Africa, many Pakistani cement manufacturing companies are actively targeting this market. However, this has spurred local cement manufacturers in Africa to try to impede sales of Pakistani cement in their countries. Many African cement manufacturers are lobbying their governments in the hope of having an import duty imposed on foreign cement. Some have insisted that the levy be increased to 35%, or the equivalent of US$5/t. This duty would significantly impede Pakistani cement exports in Africa.

The overall slowdown in cement exports is a result of various factors, including the reduction in demand from the GCC nations. Other factors include a decrease in prices internationally, along with an increase in inland charges, which has discouraged cement manufacturers in northern Pakistan from exporting their wares. An inland freight subsidy has been supplied by the Pakistani government, but its effects have not yet been seen.

When exports are analysed, it can be seen that the biggest importer of cement from Pakistan is Afghanistan. During the fiscal year of 2009, 28% of the total cement exports from Pakistan went to Afghanistan. However, the floods also affected exports to Afghanistan, holding them up for approximately one week. There are currently also difficulties exporting over the eastern border to India, due to obstructions being created by the Indian government.

When compared to August 2009, exports in August 2010 saw a 6% reduction. The figure stands at 890 000 t, which is slightly higher than the July figure. This is not an indicator of continued improvement, however, as cement production in Pakistan is becoming increasingly expensive. This is naturally affecting its sale price and its competitiveness.

Observers have pointed out that exports of surplus Pakistani cement to Africa and to the Gulf have taken place, which should have boosted the export figures. In Saudi Arabia, however, restrictions on exporting that the government had placed against its cement makers were recently lifted. As there is plenty of crude oil available to local cement makers in Saudi Arabia and in Iran, their cement manufacturing expenses are much lower than those of the manufacturers in Pakistan. The Pakistani cement manufacturers attempt to market their products as being of a considerably higher quality than those produced in Saudi Arabia, but they are unable to compete with the lower prices being charged by these manufacturers due to their higher production costs.

Affects of the flooding

Extensive damage was inflicted on livestock and agriculture, while infrastructure was severely damaged. The floods did not drastically affect the cement industry in Pakistan, nor did they affect the textile, oil, power and auto industries. The financial and banking sectors are also unaffected, and are operating as normal.

The floods have had a dramatic effect on demand for cement in Pakistan throughout the first two months of the fiscal year 2010 - 11. The manufacturing plants in general were not severely damaged, however, although some were close to the flooded regions. It is expected that cement sales will begin to recover in the second half of FY2010/11, although sales pressure has increased during August 2010 and there is price stress in the north. Prices are expected to hold for now and improve later in the current fiscal year.

As previously stated, the figures of FY2010/11 were in sharp contrast to those of FY09/10. Although the total effect of the severe flooding in Pakistan on cement sales has not yet been completely assessed, there is a decrease of 16% in yearly cement volumes.

As far as recovery is concerned, the cement industry tends to rely on growth in agriculture income, along with government spending on infrastructure. However in 2011, there will be no demand from these two important sectors. On the contrary, further fallout from the flooding will result in large demands on the government finances, while the majority of farmers in Pakistan will have limited funds due to the extensive destruction of crops and the resultant decrease in income.

If the situation is compared to the flooding that occurred in 1993, it can be seen that the internal demand for cement increased in that fiscal year, but then suffered a decrease throughout the following two years. In FY 1996 however, demand rose by 13%. Comparisons can also be drawn between the current flooding and the earthquake that affected the region in October 2005, when the demand for cement did not suffer any significant decrease. It further increased by 14% in FY 2006, and then by 24% in FY 2007.

Returning to the current situation, it can be seen that the abnormally heavy monsoon rains and flooding in July had a significant effect on the demand for cement. This was more noticeably reflected in the sales from August 2010. For example, local sales decreased by 25% on a yearly basis; some of this can be attributed to seasonal factors. In general, construction within Pakistan slows during this period as a result of the effects of the monsoon, and due to the holy month of Ramadan.

Table 3. Installed production capacity

Name of unit	Production capacity	
	Clinker	Cement
Askari Cement Limited - Wah	1 050 000	1 102 500
Askari Cement - Nizampur	1 500 000	1 575 000
Bestway Cement Limited - Hattar	1 170 000	1 228 500
Bestway Cement Limited - Chakwal	3 428 571	3 600 000
Cherat Cement Company Limited-Nowshera	1 000 000	1 050 000
Dandot Cement Limited - Jehlum	480 000	504 000
Dewan Hattar Cement Limited - Hattar	1 080 000	1 134 000
D.G.Khan Cement Limited - D.G.Khan	2 010 000	2 110 500
D.G.Khan Cement Limited - Chakwal	2 010 000	2 110 500
Fauji Cement Company Limited - Fateh Jang	1 110 000	1 165 500
Fecto Cement Limited - Sangjani	780 000	819 000
Flying Cement Limited - Lilla	1 200 000	1 260 000
GharibWal Cement Limited - Jehlum	2 550 000	2 677 500
Kohat Cement Company Limited - Kohat	2 550 000	2 677 500
Lucky Cement Limited - Pezu	3 725 714	3 912 000
Maple Leaf Cement Factory Limited - Daudkhel	3 510 000	3 685 500
Mustehkum Cement Limited - Hattar	1 080 000	1 134 000
Lafarge Pakistan Cement Company Limited - Chakwal	1 950 000	2 047 500
Pioneer Cement Limited - Khushab	1 933 571	2 030 250
Sub total (North)	**34 117 857**	**35 823 750**
South zone		
A.C. Rohri Cement Limited - Rohri	230 000	241 500
Al-Abbas Cement Limited - Nooriabad, Dadu	450 000	472 500
Attock Cement Pakistan Limited - Hub Chowki, Lasbela	1 710 000	1 795 500
Dadabhoy Cement Industries Limited - Nooriabad, Dadu	504 762	530 000
Dewan Cement Limited - Dhabeji	750 000	787 500
Javedan Cement Limited	600 000	630 000
Lucky Cement Limited, - Indus Highway, Karachi	3 428 571	3 600 000
Pakistan Slag Cement Limited	-	157 500
Thatta Cement Limited - Thatta	300 000	315 000
Zeal Pak Cement Limited - Hyderabad	342 857	360 000
Sub total (South)	**8 316 190**	**8 889 500**
Grand total (North + South)	**42 434 047**	**44 713 250**
Fauji Cement 2010 - 2011	2 160 000	2 268 000
Projected 2010 - 2011	44 594 047	46 981 250

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Although an increase of demand for cement is expected within Pakistan during the coming fiscal year, there is already a 20 million t surplus waiting to be distributed. Half of this will be exported, while 10 million t will be utilised in the extensive rebuilding that will occur within Pakistan.

The effects of the flooding on the inhabitants of Pakistan have been extensive. There are approximately 8 million people in desperate need of emergency aid, and more than 4 million people are currently homeless. There is therefore an urgent need for cement to rebuild destroyed and damaged buildings and roads.

As the floods occurred immediately before the month of Ramadan, the cement manufacturers within Pakistan had already built up a surplus in imports so as to have sufficient stocks built up at the ports within the country. The effects of the flooding on the political situation were also severe, as the government was having some success in dealing with Taliban insurgencies. Although the floods decimated the country's communications, wiping out roads, bridges, power stations and cutting off villages and towns completely, it is expected that rebuilding could begin within a few months, possibly in November or December.

Future

As of now, the future prospects of the Pakistan cement industry are good. A manifold increase in cement exports to African nations and the Middle East should occur. Additionally, there is massive reconstruction taking place in both Iraq and Afghanistan, which should rely extensively on cement imports from Pakistan.

Afghanistan in particular should be an extremely long-term source of revenue, as it does not possess the required limestone to manufacture its own cement. Although the current demand for cement in Afghanistan lies at 2.5 million t, this could increase to 15 million t.

It is possible that the cement industry in Pakistan may undergo extensive growth in 2014, as a result of projected regional and local demand. In the last ten years, cement demand has risen to 33.2 million t, an increase of 235%. Production however has increased to 44.8 million t, leaving a surplus of 11.6 million t.

The supply of 44.8 million t is divided between north and south. Currently, 8.9 million t is produced in the south, while the remaining 35.9 million t is produced in the north. A further 2 million t of cement should be produced by the Fauji Cement project, which should begin operations this year. Once the supply increases to 46.8 million t, Pakistan will be amongst the world's top 20 producers of cement.

The future cement export potential of Pakistan is 5 million t to 27 countries. There is also a 10 million t export potential of bagged cement. However, some difficulties may surface due to rises in indirect taxes, with 1% special excise duty being levied, along with Rs.700/t fixed excise duty. This means that cement produced in countries such as China and India is more competitive than that being supplied by Pakistan.

In order for Pakistan to be competitive in international markets, it is necessary for the government to provide fiscal and infrastructural support. There must be a significant rebate increase on exports and a port charges reduction, e.g. a reduction in the cost of dock labour and in port duties. There is also a need for separate berths to be provided at each port in order to efficiently export cement and clinker.

The future energy supply to the cement manufacturing plants is also in need of review by the companies involved. Historically, energy was generated with furnace oil, but this has now shifted towards coal. Additionally, alternative fuel sources, such as scrap tyres and municipal waste are being examined as a means of alternative fuel at a lower cost. In the future, alternative fuel sources could potentially account for 25% of the energy consumed by the cement manufacturing plants in Pakistan. For example, Fauji Cement under dynamic management is actively exploring different alternative fuels. Fauji cement has installed the country's first RDF system, and is now successfully replacing a portion of conventional fuel with scrap tyres and RDF.

As mentioned, coal is currently the main fuel source for the various cement manufacturing plants in Pakistan. However, the vast majority of the coal that is used in these factories is imported. As the demand for cement increases, so too will the demand for coal. Therefore experts recommended that the Pakistani government invest in coal reserves in Thar and Balochistan, so as to anticipate and accommodate this future demand for coal.

In addition, cement manufacturers should reduce their procurement spending by improving their sourcing of spares and equipment. This can be achieved by reducing dependence on original plant supplier companies and by involving OEM suppliers for maintenance requirements.

While extensive damage has been caused by the recent flooding, there is a definite need for planned and directed investment in infrastructure, transport and construction within Pakistan, especially if the nation is to achieve its ambition of a gross GDP growth of 6% within the coming five years. It is essential for the future development of industry in Pakistan that trade corridors, highways and dams be provided.

Sources

1. Cement Pakistan Company – www.cement.com.pk
2. All Pakistan Cement Manufacturers Association (APCMA)