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A trader's view

Overcapacity: How long will Africa remain a solution as an offset destination?

For countries with excess cement capacity Africa is a destination market for export sales. With African consumption rising from 82.7Mt in 2000 to 179Mt in 2010 and continuing to rise by 10%/yr, one might expect that Africa could solve all of their problems, with consumption possibly going through 250Mt in 2013. However, this is not the case, even though there is a forecast surge in African consumption from 153.8kg/capita in 2008 to 250kg/capita by 2014-2015. No other continent grows at a rate of 62% in just six years.

This is a very interesting situation if you are a cement producer considering building a cement plant in Africa because by the time you finish construction your capacity could already fall short by 30%! Consequently architects and engineers must design a cement plant to adapt and to upgrade for fast expansion from one to two kilns and beware that the investments in logistics should follow that rhythmn, not common in other markets.

Africa is literally squeezed between two continents trying to get rid of cement. On one side there is Europe, which has had a devastating drop in demand. I heard that a third of construction companies in the Netherlands will go out of business in 2013 and the Spanish cement market, once good for 54Mt/yr is now more than 50% below its peak. Greece has dropped to a third of previous consumption and other countries in the Mediterranean report excess capacity except Algeria. On the other side many Asian countries have too many cement plants.

Conclusion? Europe and Turkey have more excess capacity than what the West-African markets can absorb and in the east of Africa, excess capacity in countries like Pakistan, Iran, Vietnam exceed the cement deficit between Djibouti and Mozambique.

Whereas in 2011 all African countries except South-Africa were net importers, this is no longer the case. North-African countries like Egypt and Tunisia are satisfying domestic demand, but the big surprise comes from Nigeria. For the first time Aligote Dangote's backyard is dealing with an excess capacity of up to 1Mt/yr Will countries like Chad, Niger, Mali and Burkina-Faso reduce imports from Europe and Asia through the Gulf of Guinea and instead get Nigerian cement from the northern provinces with lower haulage costs?

Not only are more and more coastal African countries becoming self-sufficient, but landlocked countries are building cement plants. Within two years cement could come from the heart of Africa towards the coast While this may not lead to massive exports, it would eventually make overseas imports and then transport by road pointless. It is obvious that this trend is bad news for cement traders. It is also bad for all of the countries that already suffer from excess capacity.

In 2010 Africa had a total cement capacity of 177Mt/yr and it produced 158Mt. The pace at which Dangote is building new cement plants in Nigeria, Senegal, Zambia, Republic of Congo, Tanzania and Ethiopia, the rate that HeidelbergCement is moving in Togo and the growing Indian cement plant investments in Africa make me believe that, despite the high growth rate, rapid construction and upgrades to older plants will reduce the current African deficit of 40Mt/yr by over half.

We all know that domestic prices in Africa are high, sometimes very high. It's in contrast with what cement exporters and traders are able to get. They do not take any advantage of those high retail prices in Africa and CIF or CRF wholesale export prices will not go up in the future unless sea freight soar again. This is unlikely in 2013 at least. With idling vessels around the world at places like the Bosphoros in Turkey, I don't expect freight rates to go up that much and make importing cement to Africa more expensive. Cement import prices will remain very low because the deficit will decrease and the offered cement capacities coming from Europe, Turkey and Asia will only increase. What if Algeria, Egypt and Nigeria become net exporters and just make it worse? Where can that cement (mainly from Spain and Portugal) go?

In fact the global overcapacity needs several destination markets with growing deficits to offset its excess capacity. This will not happen. Despite higher demand in Africa we will see shrinking deficits there due to rapid capacity addition. I forecast the global cement overcapacity to get worse in 2013.

As for clinker, it is not exported to traders in Africa. Clinker volumes shipped to Africa to date have mostly been internal group sales. Apart from one Pakistani group, Seatrade, which has its own terminal in Maputo, Mozambique, I don't know of any free importer in Africa that has its own grinding facilities, although Cemengal from Spain has announced that the first East African 'Plug & grind' unit is due to be commissioned during 2013.

Finally, more and more African countries will become self-sufficient, you will see them raise import duties to discourage importation of foreign cement to distort their domestic markets. We already see that trend today in Nigeria.