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MINING: Brimming with Potential

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Despite challenges, Oman's mining sector is poised to grow faster in coming years particularly in the construction material segment

The mining sector in Oman could see higher growth in coming years as the government, worried about employment generation in the backdrop of slowing economic activities, are working on building an industry-friendly legislation that could give a boost to the sector.

Oman's new mining law, which is likely to be finalised later this year, is expected to streamline the process of giving licences for extraction, production and export of minerals from the country by removing current regulatory hurdles. Through a Royal Decree issued in second half of 2014, Oman set up the Public Authority for Mining (PAM), which has been given power to grant licenses for extraction activities and all matters related to the mining sector were also put under its jurisdiction. PAM has been working on drafting a legislation which could ease the process of granting licences and also sort out all the matters related to royalty payment by making it the custodian of all mineral resources in Oman.



“The authority will be the custodian of all mineral resources in the country and will have power to regulate and issue mineral extraction license thus it would clear many regulatory hurdles. That will be very good for the country,” says Dean Cunningham, CEO of Kunooz Oman Holding, one of the largest mining firms operating in country. Kunooz Oman Holding

also announced the process of bringing an initial public offering (IPO), which could make it the only mining company to be listed on the Muscat Securities Market.

He says, "Authorities in Oman should try to capitalise on higher economic growth currently being witnessed in Australasia and the East Coast of Africa. All these regions are developing economies where urbanisation is a priority. This means high levels of consumption of cements, steel and other construction related materials which are found in abundance in Oman."

According to a US Geological Survey report, the mineral industry of Oman is expected to continue to grow in the next five years as local, regional, and international companies continue to invest in primary and secondary aluminium, cement, ferro chrome, gypsum, iron and steel, lime, nitrogen, and petrochemical projects in the country.

Much of the expected growth is driven by the increased demand for industrial minerals for infrastructure projects in Oman as well as in the neighbouring countries of Qatar, which will be hosting the FIFA World Cup in 2022, and the UAE, which will be holding the World Expo in Dubai in 2020.

Mineral rich

Oman is blessed with considerable mineral resources such as ammonia, chromium, copper, gypsum, manganese, primary and secondary aluminium products, and urea. The sultanate also has developed in-country valuation for some mineral-based industry such as crude steel, direct-reduced iron (DRI), limestone, kaolin, laterite (low-iron ore), marble, quartz, salt, sand and gravel, and silica, which were mainly consumed locally.

The government in its flagship economic reform programme called Tanfeedh is giving a push to the logistics sector, which in turn could help the mining sector a lot as transportation challenges are currently capping the export volumes.

"Most of industrial minerals including gypsum extracted and exported from Oman are high volume bulk materials. So, transportation and capacity of port loading facilities are one of the biggest hurdles in increasing

volumes," says Ramachandran, director at Zawawi Gypsum, a joint venture between US-based USG Corporation, Australia-based Boral and Zawawi Group, and one of the largest producer and exporters of Gypsum in the country.

Building demand

Most of Oman's mineral deposits are within 50km distance from the coastline and ports. This makes it very convenient for the mining of bulk materials, which can be extracted, processed and exported easily, says experts.

Building materials segment continues to dominate Oman's mining industry, which will be buoyed by domestic demand as it is expected to remain robust with tourism and other logistics projects moving ahead in the coming years. Exports also have strong growth prospects, with minerals already accounting for one-third of the non-oil outbound trade as of 2014.



Sheikh Hussain al Kalbani, general manager of International Marble, says, "The sultanate's mineral resources include chromite, dolomite, zinc, limestone, gypsum, silica, copper, gold, cobalt and iron, to name a few. Several industries have grown up around them as part of the national development process, which, in turn, have boosted the mineral sector's contribution to the nation's gross domestic product as well as providing jobs for Omanis and expatriates. Therefore, the sultanate does not have to depend only on oil.

"If these gifted deposits of our country will be sourced with continues strategic plans; surely the potential will be very high."

Gypsum success story

Of all the minerals that are currently being extracted, processed and exported from the sultanate, gypsum enjoys the lion's share. And due to number of factors, Oman is likely to soon emerge as the largest exporter of gypsum in the world.

Gypsum, as a raw material, is used for plaster, board and cement, and hence the construction sector is the biggest end user of the material. Asian cement and gypsum board manufacturers, which are the main customers of imported gypsum are already started to face supply and pricing challenge – a trend that is likely to continue for in the coming years.

“The potential supply of gypsum from the sultanate becomes an interesting prospect and Omani gypsum will be the preferred source of import in most of the Asian countries as well as East and South Africa,” says Ramachandran.

According to Ramachandran, gypsum exports from sultanate have been growing at phenomenal pace. Oman is on track to be crowned as the world’s largest exporter of natural gypsum by 2018 on the back of surging output that underscores the immense potential of the sultanate’s mining sector to fuel the nation’s long-term economic development.

Oman gypsum export volumes have jumped a phenomenal 20-fold over the past five years from mere 300,000 tonnes in 2010 to a whopping 5.85mn tonnes in 2015. Currently ranked as the seventh-largest producer in the world as of the end of 2015, Oman is projected to raise its gypsum production to around 7mn tonnes by the end of 2016, before topping 10mn tonnes per annum in 2018.

Growth across Asia and southern and eastern Africa is fuelling a surge in production and exports of high-grade natural gypsum – a basic raw material for cement and gypsum board manufacturing.

Ramachandran says, “The dynamics expected to drive global gypsum supply and demand in the long term bode well for Omani exports with high growth anticipated in urbanisation and infrastructure development in India, ASEAN countries, Africa and the GCC, and global gypsum demand projected to increase by an average compounded annual growth of ten per cent to reach 870mn tonnes by 2026.

“With gypsum reserves estimated in excess of 1bn tonnes, Oman is well positioned to meet demand for the commodity.”

Logistics is crucial

Oman’s natural resources are aligned in such a way that it makes it easy to export bulk commodities such as limestone and gypsum, but at the same time other minerals, particularly related to the metal segments, are difficult to extract and process.

According to available information, more than two dozen companies are engaged in mining activities in the country. Most of them are engaged in mining and processing of mainly construction materials such as marble, gypsum and limestone where only a handful companies are engaged in other activities particularly in copper mining.

Experts say that most of metallic mineral deposits are found in some locations but due to logistics and operational challenges, it has not been properly utilised.

“We can directly extract, crush, process and export gypsum and limestone with no chemical alteration, where as in the likes of copper, this requires high energy for grinding and then a process to extract the copper. This is expensive and to get meaningful returns we require significant resources to do this,” says Cunningham on the prospects of other mineral exports in the country.

On other challenges, he says, bulk commodities, including limestone and gypsum, are very sensitive to logistics and movement costs. Narrow margins in this market segment make the cost of transportation critical to turning a profit.

“With fuel prices changing monthly, and currently represents roughly 30-35 per cent of the total cost of transporting gypsum to the Port of Salalah. On the expectation that fuel prices will continue to rise margins in all business will continue to shrink or the additional cost will be pushed on to the consumers.

This in itself will create inflation and a higher cost of living,” says Cunningham.

The mining industry also has to brave frequent changes in regulations, which increases the cost of operation and impacts their profitability. Sometimes, the government introduces minimum export price which deny companies the opportunity to enter long term contracts.

According to Kalbani, mining companies also have to contend with environmental regulations, which are likely to become more stringent in the future. Additional taxes will cause some to reduce or stop production. “I would prefer that the government to look in to these aspects and provide their complete support to the mining sectors to have continuous development, which will be a beneficial to the country as well as the companies too.”

Another issue is the lack of clarity on regulations restricting the weight of trucks on certain roads. New legislation has reduced load limits from about 70-80 tonnes to 50 tonnes, increasing the number of trucks that companies must operate, thus raising costs. Without industry-specific roads or rail connections, this amounts to a significant drag on the industry.

“Looking ahead, the growth of Oman’s mining sector is likely to hinge on improved logistics connectivity. Delays in building the national rail network could continue to force raw materials to be transported by road at a higher cost,” says Cunningham.

