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COVID-19 hits Middle East construction activity

Building activity loses momentum in the Middle East as the region faces twin challenges emanating from the coronavirus pandemic as well as plunging oil prices. **V L Srinivasan** reports

In its regional economic outlook report for April 2020, the International Monetary Fund (IMF) has projected that the Middle East and North Africa (MENA) economies will contract by 3.3% in 2020, the biggest slump in four decades.

The report further said that the twin shocks of COVID-19 and low oil prices were likely to shave off US$323bn, or 12%, of the Arab world's economy. Of this, $259bn is from the oil-exporting six-member GCC (Gulf Cooperation Council) countries alone.

Dubai, which was all set to inaugurate World Expo 2020 on October 21 this year, postponed the event by one year exactly. The UAE government has restricted air travel, announced a stimulus package of $34bn to support the economy, suspended issuance of new labour permits for the time being and has been allowing only essential personnel to visit the sites of projects under construction.

According to a report from Strategy& Middle East, part of the PwC network, the pandemic has hit the construction industry hard. Contractors have been facing budget overruns and delays, due to lockdown measures and strict hygiene and distancing restrictions resulting in low productivity.

Authored by Marwan Bejjani (partner), Alessandro Borgogna (senior executive adviser) and Elias Karam (manager), the report states that construction materials were taking longer to source due to reduced manufacturing output and other supply-chain issues. These are difficult challenges, but contractors in the GCC need to balance short-term measures to survive the crisis with medium-term measures to prepare for the eventual recovery.

"The ultimate impact on the GCC's construction industry is still unclear, but we estimate that contractors in the region could lose approximately $30bn in revenue (20% of the GCC's total construction market for 2020) if the current lockdown remains in place for three months," the authors said.

If the lockdown extends through the end of 2020, the revenue impact would be about $65bn, a drop of around 45%, they added.

Crucial year

General manager of Emirates Building Systems (EBS) Joseph Chidiac said the UAE's stimulus package aimed to cut the cost of doing business, support small businesses, and deliver significant government infrastructure projects.

EBS is a wholly-owned subsidiary of Dubai Investments, and one of the leading manufacturers of steel structures in the Middle East with an annual production capacity of over 75,000 tons. "I feel 2020 is going to be a crucial year for construction companies in the UAE in the wake of COVID-19 outbreak," he said.

The UAE's total construction contracts across all sectors were forecast to increase from $43.46bn in 2019 to $45.14bn in 2020. This includes the building sector ($25.2bn) followed by energy ($15.58bn) and infrastructure sectors ($4.3bn).

"I feel 2020 is going to be a crucial year for construction companies in the UAE in the wake of COVID-19 outbreak"

Joseph Chidiac

"With the pandemic, oil price crash and the global economy in tatters, these figures are no longer realistic. The UAE, as well as other countries, are still fighting to keep the virus at bay and projecting a realistic forecast for the year is not possible at this stage," he explained.

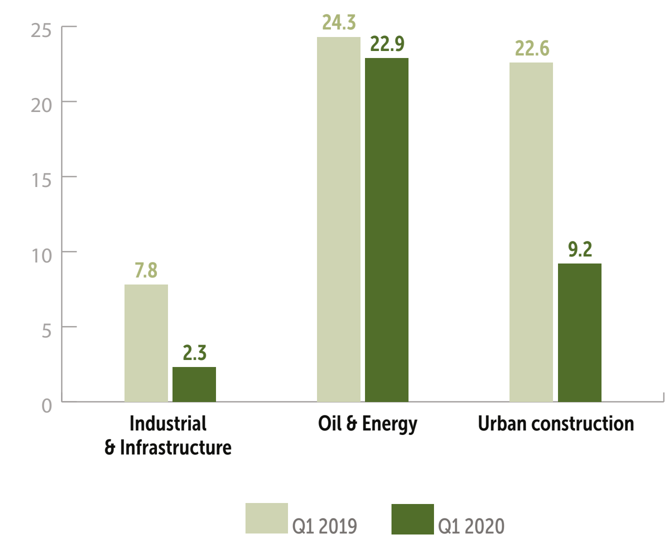
The contractors in the UAE may have to go through the price negotiation process again as project promoters are likely to insist on re-pricing contracts because of the changed circumstances. Even projects awarded as recently as weeks ago are undergoing re-pricing.

"The Abu Dhabi National Oil Company (ADNOC) has terminated engineering, procurement and construction (EPC) contracts it had awarded to the UK-based Petrofac for its $1.65bn Dalma sour gas field development project. ADNOC has reportedly urged Petrofac for a discount on its contract value, which was turned down," Chidiac said.

With regard to stock levels, he said that EBS was well stocked to take care of their immediate materials and consumable needs. It always keeps stock for at least six months and is not exposed to foreign suppliers. When required, the company sources from within the UAE or the GCC countries.

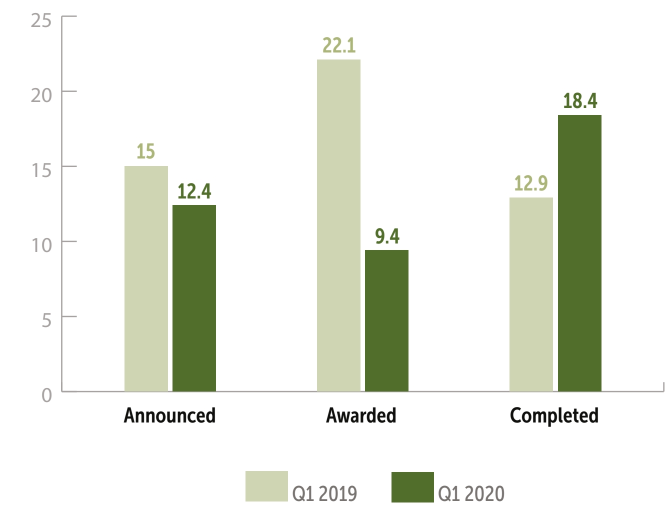
"Our policy is to purchase in bulk well in advance of projects' schedules, and hence, for now, the virus is not having any material impact on us and our production is progressing as normal," he added.

Oil & Energy projects drive MENA* contract awards in 2020 ($USbillion)



*MENA coverage includes all the GCC Countries, north African countries of Egypt, Sudan, Algeria, Tunisia, Morocco and Levant countries such as Jordan, Lebanon, Iraq along with Iran

UAE drives project completions in Q1 2020 ($USbillion)



Source: BNC Intelligence

Downturn in GCC

The scenario is no different in the remaining five countries in the GCC region as the spread of the pandemic forced these governments to announce social lockdowns to contain its spread.

According to leading data and analytics company GlobalData, the region's construction sector will face a downturn in 2020 over soaring COVID-19 cases and a slump in oil prices. The construction output growth forecast has been revised to -0.8%, down from the previous projection of 1.4% in mid-March (and 4.6% in its Q4 2019 update).

"Dubai's Department of Finance has also ordered a 50% cut in capital spending and has called for a freeze on new public construction schemes"

Yasmine Ghozzi

While Saudi Arabia has been maintaining its renewable-energy programme impetus and Aramco has been issuing tenders for offshore construction works, other parts of the GCC, including Qatar, Oman and Kuwait, are revising their spending and their construction pipelines.

"Dubai's Department of Finance has also ordered a 50% cut in capital spending and has called for a freeze on new public construction schemes. Outside the GCC, Iraq announced that the COVID-19 pandemic constitutes a force majeure for all projects and contracts, creating uncertainty in Iraq's construction sector," GlobalData's Economist Yasmine Ghozzi said.

Yasmine further pointed out that the outbreak was threatening to devastate Egypt's $12.5bn-a-year tourism industry, which accounted for 12% of GDP.

In Jordan, the government has put in place a plan to jumpstart the construction sector, one of the most heavily affected by the COVID-19 economic fallout, to reboot the economy and provide jobs for day workers, according to the official Jordan News Agency.

Minister for Public Works and Housing Falah Omoush said the plan was aimed at stimulating the construction sector and addressing the economic ramifications of COVID-19. "Our plan seeks to support and sustain the small and medium-sized businesses as they struggle amid governmental strict stay-at-home measures to stem the spread of the virus," the minister said and added that strict safety measures would be followed.

Bahrain and Oman impacted

Oman, too, has allocated $13.77bn for projects in its 2020 budget, and they include $7.01bn for industrial projects and services and $3.38bn each for infrastructure and for oil and gas projects.

The government, in tandem with the private sector, has been executing 2,410 construction projects whose combined value is put at around $188bn. They include 1840 ongoing projects valued at around $61bn on urban construction projects, 70 projects worth $39bn in the oil and gas sector, and 150 projects worth $32bn in transport. Additionally, 340 projects in utility and industrial sectors are being implemented, costing around $56bn.

But things changed after the COVID-19 outbreak and low oil prices and Oman's federal bank – Central Bank of Oman – has announced a package to inject additional liquidity of over $20.8bn into the economy.

As part of the measures to mitigate the impact of COVID-19 crisis, Oman's finance ministry has instructed all other ministries and civilian units to reduce liquidity for development budgets by 10%. Additionally, state companies will no longer be established for business activity to give way to the private sector.

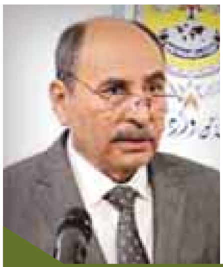
Things are no different in Bahrain as it has announced that spending by ministries and government agencies will be slashed by 30% to help the country weather the coronavirus outbreak. Bahrain will also reschedule some construction and consulting projects to keep spending within the 2020 budget and make room for other expenditure needs emerging as a result of the disease's spread, an official statement said.

M R Raghu, Kuwait Financial Centre executive vice president, said that although the GCC construction market continued to remain buoyant, with projects worth $17.5bn announced in February 2020 alone, the supply of materials was bound to face constraints.

Movement of construction materials and labour to construction sites remains a logistical issue due to lockdown and travel restrictions, he said.

Despite these hiccups, some of the GCC governments have allowed for critical construction works to take place provided guidelines issued by governments are followed. "The industry consensus is that, if we could overcome the COVID-19 pandemic in two months, the industry could recover faster," he said.

"Projects envisioned as part of developmental programmes in Saudi Arabia and Kuwait would receive a renewed push in the post-COVID-19 scenario as the governments expect to accelerate their spending in various critical infrastructure projects. These include enhancing capacities of healthcare, education, roads, airports, power and housing projects," he added.



"Our plan is aimed at stimulating the construction sector and addressing the issues caused by the economic ramifications of COVID-19"

Falah Omoush

Corporates join hands

Major companies such as Caterpillar and LafargeHolcim, which have been operating worldwide, including in the Middle East, have joined hands with the regional governments to fight the pandemic.

Caterpillar chairman & CEO Jim Umpleby said that his company remained committed to the safety, health and well-being of its employees around the world. The employees are delivering products and services that enable its customers to provide critical infrastructure essential to support society during the COVID-19 pandemic.

"In view of the pandemic, many governments have classified Caterpillar's operations as an essential activity for the support of critical infrastructure. Working with our dealers, Caterpillar is delivering products and services that enable our customers to provide critical infrastructure that is essential to support society during the COVID-19 pandemic," he said.

These products are being used by customers to provide prime and standby power for hospitals, grocery stores and data centres. They are also used to transport food and critical supplies in trucks, ships and locomotives, maintain clean water and sewer systems and mine commodities and extractive fuels essential to satisfy global energy demand.

"While employees who can work from home are doing so, in other facilities that remain open, Caterpillar is implementing safeguards to protect its team members in accordance with regulatory requirements and guidance from health authorities," he added.

LafargeHolcim's chief executive officer Jan Jenisch said that his company had also taken necessary measures to protect the health of its employees, customers, suppliers and other stakeholders since the beginning of the outbreak.

"While the construction sector and sites are generally more resilient than other sectors, the company has been experiencing disruptions in operations in various countries," he said.

In China, the recovery of the construction sector has started, and all the company's plants outside Hubei Province are operating.

"In most of the other key markets, the construction sector has been disrupted, and we forecast significant volume declines in April and May. While demand in Q1 was solid overall, LafargeHolcim expects a significant negative impact on its business in Q2," he added. AB

Russian Pavillion at Dubai World Expo 2020

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