

Comprehensive Study on

PROSPECTS OF INDONESIA'S STEEL INDUSTRY (Amid tight competition & scarcity in basic material supply) March, 2008

On February, 2008, the government slapped anti dumping import duties on imports of hot rolled coil (HRC) from five major suppliers in the world - China, Taiwan, Thailand, Russia and India. The measure has threatened the survival of HRC consuming industries in the country such as cold rolled coil (CRC), galvanized steel sheet (GI-sheet) and other steel industries in the downstream sector.

PT Essar Indonesia, a producer of CRC and GI sheets said it has been in difficulty to secure HRC as basic material from the local supplier the state-owned steel maker PT Krakatau Steel.(KS). Earlier the Indian company threatened to move its production operation from the country if the government imposed the anti dumping import duty as recommended by the Indonesian anti Dumping Committee (KADI) in December, 2007. PT Essar had imported HRC to feed its CRC plant from its parent company in India or from other suppliers in China and Taiwan.

The condition was worse as the government has decided to impose a 5% import duty on HRC. Under a decision earlier of the finance minister No.85/PMK.011/2007, HRC with thickness of less than 2 mm was exempted from import duty for six months ending in February, 2008. The government has launched a program through a decision of the finance minister No.591/PMK.110/2004, to harmonize import tariffs on steel products in 2005-2010. However, disharmony in the tariffs on downstream and upstream steel products has continued to pose a stumbling block in the development of steel industry in the country.

In Japan, the FOB prices of HRC early 2008 was US\$850 per ton. The price set by Indonesian importers including cost of transport of US\$65 will be at least US\$915 per tons in the country. A steel industrialist even said the price of HRC in international market already reached US\$900 per ton FOB. It is estimated the dumping price would exceed US\$1,000 per ton in Indonesia.

The price is too high for the consumers in the downstream sector in the country, With an anti dumping import duty of 12.95%, CRC producers in the country will have to pay higher for imported HRC. PT Essar Steel Indonesia will no longer be able to enjoy importing HRC in cheap price from its parent company Essar Steel in India. The price of HRC from PT KS in Java is around US\$9,350 per kg or US\$1,027 per ton, up from US\$789 in mid January.

The anti dumping import duty will cause a 7%-9% increase in production cost of the downstream products of steel. As a result a number of downstream products of steel are no longer competitive facing products from China. The anti dumping import duties are feared to result in a large shortage in the supply of HRC as the five countries especially China have accounted for more than 50% of HRC imports needed by the country. In a bid to reduce dependence on imports KS plans to build a steel ore processing plant in South Kalimantan. KS and the state-owned general mining company PT Aneka Tambang have agreed to team up in

building the smelter which is to have an annual production capacity of 300,000 tons a year in the first phase.

However, the plan like one made by Essar and the Gunung Gahapi Group also in Kalimantan, has not come to reality as expected for the same reason that steel mines which are located in various areas in small scale are controlled by holders of mining authority that generally prefer to export their production.

PT Media Data Riset, a company providing data and information services, has published a report about "Prospects Of Indonesia's Steel Industry"(Amid tight competition & scarcity in basic material supply). The report has been compiled using the latest data available about the country's steel industry both in the upstream sector that produces steel basic material like slabs and billets , in the intermediate sector with products like HRC/CRC, and in the downstream sector with various products.

This report presents details about production and production capacity, new and expansion projects, consumption and projection of consumption, price developments and prospects. The study report would be necessary and useful for business players in the steel industry, prospective investors, financing agencies and other related industries.

For detail of the report, please find enclosed the Report Outline and its ORDER FORM or please contact us anytime PT Media Data Riset through telephone number 021-8093140, mobile phone: 085217061945 or through e-mail: info@mediadata.co.id / mediadatariset@yahoo.com for other enquiries.

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Yours faithfully

Mansur S
Marketing Manager.

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(Amid tight competition & scarcity in basic material supply)
March, 2008

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