



BlueScope Steel Limited
ABN 16 000 011 058
11/120 Collins Street
Melbourne VIC 3000
PO Box 18207
Collins Street East
Melbourne VIC 8003
Telephone +61 3 9666 4000
Facsimile +61 3 9666 4111
www.bluescope.com

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Mr Dave Sharma MP
Chairman
Joint Standing Committee on Treaties
PO Box 6021
Parliament House
Canberra ACT 2600
By email: jsct@aph.gov.au

Dear Chairman

Thank you for the opportunity to make a submission to the Joint Standing Committee on Treaties (JSCOT) regarding the Indonesia – Australia Comprehensive Economic Partnership Agreement (IA-CEPA).

Background: BlueScope in Indonesia

BlueScope has been operating in Indonesia for over 43 years, with approximately US\$750 million invested in five plants across the archipelago. In 2013, BlueScope Steel Indonesia (BSI) became part of a joint venture with Nippon Steel & Sumitomo Metal Corporation and is now known as NS BlueScope Indonesia (NSBI). It employs approximately 500 Indonesians directly, and a further 1,000 indirectly. We are one of the largest Australian direct foreign investors in Indonesia. And we are the largest manufacturer of coated steel products in that country, holding a leading position in the market based on a reputation for safety, quality and innovation. The company principally services the building & construction market, including major commercial projects – such as the new ‘Ultimate’ Terminal 3 at Soekarno-Hatta airport, DEO Airport in Sorong, Papua, and the largest convention centre in Banten province - and the residential housing sector.

Across BlueScope’s global footprint, Indonesia is one of the countries with the greatest potential for growth, with its large economy and population, but low steel consumption per capita. BlueScope has developed a roadmap for growth and investment in the ASEAN region over the next ten years. With the right policy settings, Indonesia could play a significant part in the company’s investment plans. However, to date a number of trade restrictions have reduced its attractiveness as an investment destination.

Shortfall in Indonesian domestic steel production

BlueScope’s Indonesian operations make coated and painted steel products – including iconic brands such as COLORBOND® steel - using a semi-finished steel raw material feedstock called Cold Rolled Coil (CRC). Indonesian supply of CRC - principally from the state-owned enterprise (SOE) PT Krakatau Steel (PTKS) - is insufficient to meet domestic demand, and domestic consumers of CRC including BSI need to import a proportion of their requirements. Even with planned expansions, the

Indonesian market is projected to have a shortage of approximately 650,000 tonnes per annum of CRC production capacity for at least the next three years.

Not only is there a supply shortfall, but prices for CRC in Indonesia have been consistently higher than regional ASEAN market prices. This places NSBI at a competitive disadvantage compared to regional competitors.

Trade restrictions hurting Indonesian steel industry and consumers

Two trade policies of the Indonesian Government have made it difficult for NSBI (and other midstream steel producers in Indonesia) to source the necessary imported CRC feedstock to be competitive:

1. **Administrative permit system** – A permit from the Indonesian Government is required to import feedstock. The Government scrutinises permit applications to see if they are in line with a company's business plans, and also considers the views of local Indonesian feedstock manufacturers, before issuing a permit based on the government's assessment of the supply – demand balance. As an example of the permit system in operation, NSBI applied for 141,000t in FY2017, but was initially granted an allowance to import only 50,000t. The company was then able to apply for a further permit once it had reached 60% of its allowance (30,000t in this case), but the process can be time consuming and there is no guarantee that a permit will always be granted.
2. **Tariff on non-ASEAN imports of CRC (and HRC)** - Indonesia applies tariffs of up to 15% (depending on thickness and product) on Australian exports of CRC and Hot Rolled Coil (HRC), meaning NSBI cannot currently import this essential feedstock from Australia competitively. Intra-ASEAN trade in CRC and HRC currently attracts zero tariff (under so-called 'Form D' arrangements), provided there has been a minimum 40% transformation of the product by value within ASEAN. However, it has historically been difficult for NSBI to source competitive feedstock from ASEAN. NSBI's preference is to be able to source a proportion of its feedstock from BlueScope's operations in Australia, without tariffs or quotas. This would guarantee supply to NSBI and boost BlueScope's Australian export business.

Indonesia – Australia steel trade

There is currently an imbalance in steel trade restrictions (tariffs; quotas) and trade volumes between Australia and Indonesia, in Indonesia's favour. In contrast to the tariffs imposed by Indonesian authorities, most Indonesian flat steel exports can enter Australia at zero tariff (there are tariffs on some 'other alloy' flat steel products, and a 4% tariff on pipe & tube products). And there is no quota system in Australia.

Steel trade volumes have been heavily in Indonesia's favour – between FY2008 and FY2017, Indonesia exported 783,000 tonnes of steel products to Australia, whereas Australia only exported 169,000 tonnes of steel products to Indonesia (an imbalance some 4.6 times in Indonesia's favour).

Key outcomes for steel from IA-CEPA negotiations

We understand Indonesia has agreed to reduce its current tariffs of 15% on HRC and CRC to zero from the date of entry into force of the IA-CEPA. It has also agreed to immediately guarantee to

Australia import permits for 250,000 tonnes of steel per year, increasing by 5% per annum thereafter. We wholeheartedly support these outcomes.

Conclusion

BlueScope is very pleased that the Australian Government has secured a high quality, comprehensive agreement with Indonesia. In recognition of this, I was pleased to attend the signing ceremony in Jakarta in March this year.

The outcome on hot rolled coil (HRC) and cold rolled coil (CRC) steel opens up the potential to more competitively export steel products from our Port Kembla Steelworks to BlueScope's operations in Indonesia. This is a win-win for Australia and Indonesia: it will ensure that BlueScope's operations in Indonesia, which employ over 500 Indonesians, have competitive supplies of feedstock. And it will allow Indonesia to source greater quantities of high-quality, cost-competitive steel products to help the country achieve its ambitious infrastructure and growth agenda.

Accordingly, we would urge the committee to recommend the ratification of the Indonesia – Australia Comprehensive Economic Partnership Agreement.

We would be happy to provide further information in support of our submission at your convenience.

Yours sincerely

Mark Vassella
MANAGING DIRECTOR & CEO