

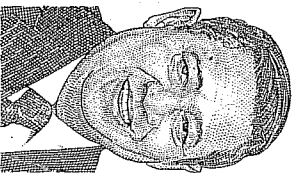
ArcelorMittal Proposes Indonesian Investment

By YAYU YUNIAR

JAKARTA—ArcelorMittal, the world's largest steelmaker, is planning to invest up to \$8 billion in Indonesia in a deal aimed at capturing key supplies of iron ore and reducing its reliance on big suppliers like **Companhia Vale do Rio Doce SA**, **BHP Billiton PLC** and **Rio Tinto PLC**.

ArcelorMittal made its offer in a letter to Indonesian President Susilo Bambang Yudhoyono dated April 17, said Maxi Gunawan, a vice chairman of the Indonesian Chamber of Commerce, which has been involved in the negotiations.

A representative of ArcelorMittal confirmed the company has been involved in talks to take a stake in Indonesia's state-owned **PT Krakatau Steel** but gave no further details.



President Yulhooyono

Under the plan, ArcelorMittal is proposing to buy a stake in Krakatau Steel and set up a new steel plant in a joint venture with the Indonesian company, according to Mr. Gunawan. Also, ArcelorMittal is proposing to create a partnership with state-owned miner **PT Aneka Tambang** to prospect for iron ore, nickel and manganese. ArcelorMittal executives are slated to make presentations to the state-owned enterprises ministry and the boards of both Indonesian companies May 8.

Lakshmi Mittal, chief executive of ArcelorMittal, met with President Yudhoyono last month to discuss the outlines of a possible deal, Mr. Gunawan said.

Mr. Mittal's ties to Indonesia go back to the mid-1970s, when he ran a family-owned steel mill in Surabaya, Indonesia's second-largest city. He managed the mill for over a decade, eventually taking market share from Japanese producers who dominated the industry at the time. ArcelorMittal, created by the takeover of Luxembourg-based Arcelor by Mittal Steel in 2006, has been investing heavily in emerging markets like India, Russia and Senegal.

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The Indonesia deal, if successful, would potentially give ArcelorMittal access to Indonesia's reserves of iron ore, a crucial ingredient in the manufacture of steel. At the moment, the company supplies about 40% of its own iron-ore raw material but also buys from the big producers, especially Vale of Brazil. Vale, Rio Tinto and BHP together account for 75% of global iron-ore exports, analysts say. It would also open the door for ArcelorMittal to sell more in Indonesia, one of the world's fastest-growing economies. The government expects the economy to expand 6.3% this year, largely fueled by the global boom in commodity prices. The construction sector, a major buyer of steel, is expected to grow strongly this year.

For its part, Indonesia appears keen to back the deal, which would bring much-needed foreign investment to the country. Despite the commodity-led economic boom, the government has been less successful in attracting foreign investment in manufacturing, which is needed to create jobs. "Even though our economic indicators are healthy, we need new investment," Mr. Gunawan said.

Krakatau Steel dates back more than 40 years to the era of President Sukarno, when the steel project was begun with the assistance of the Soviet Union to kickstart Indonesia's industrial sector. The venture struggled to get off the ground, however. Former President Suharto, who pushed Mr. Sukarno from power in the late 1960s, attempted to revive the company. But it became embroiled in a series of corruption scandals involving state-owned oil company **PT Pertamina**, which had invested in the plant. Currently, the plant has the ability to produce 2.5 million tons of steel per year but is running below capacity.

—Robert Guy Matthews contributed to this article.

Arcelor Plans Surcharges For Its Steel Customers

By ROBERT GUY MATTHEWS

Citing high raw-materials costs, the world's largest steel producer, **ArcelorMittal**, sent a letter to U.S. auto makers and other U.S. contract customers saying that it would apply a rare \$250-a-ton surcharge to the price negotiated in existing contracts, according to people who received the letter.

Contract customers, including **Ford Motor Co.** and **General Motors Corp.**, may have no immediate option but to pay up because of the tight steel market world-wide. Moreover, other steelmakers are likely to increase prices or add surcharges for the same reason. But the higher costs come at a difficult time for car makers, which are contending with a downturn in the U.S. market because of the housing slump and credit crisis. Passing on the higher steel costs to car-buying consumers is an increasingly difficult option, given higher food and energy costs, and consumers' concerns about the weak economy.

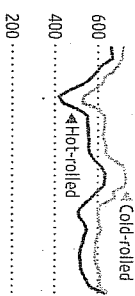
A spokesman for Ford said it doesn't discuss contract prices for competitive reasons. During a conference call this week, the company alluded to higher steel prices and said it was looking for long-term solutions to the rising cost of steel by reducing the amount of steel that is used in automobiles.

According to the letter, sent a about a week ago, the surcharge, which Mittal described as "unprecedented," would begin May 5 regardless of when the contracts are slated to expire. ArcelorMittal, of the Netherlands, wouldn't confirm the letter but did intimate that contract steel prices aren't fixed, given the volatile raw-materials market. "We will continue to engage in constructive dialogue with each of them on pricing, given present market conditions," said an ArcelorMittal spokesman. While contract prices aren't known for competitive reasons, the surcharge would add an estimated 10% to 20% on the price of each ton of steel, according to analysts.

Until now, contract prices were nearly sacrosanct, and customers could count on paying that negotiated amount for the length of the contract. For most steelmakers, the majority of steel is sold under one-year or multiyear contracts.

The price jump comes amid continuing escalating costs for nearly all raw materials. Big mining companies such as **Rio Tinto PLC**, **BHP Billiton** and **Companhia Vale do Rio Doce** have each

On the Rise
 Monthly U.S. steel spot prices
 \$1,000 per ton



Note: Volume-weighted average transaction/base price for coils shipped in the indicated month
 Source: Dow Jones Indexes

raised spot prices for iron ore, coal, manganese and other essential steelmaking ingredients. Steel companies have had no other choice but to pay the higher costs, but have decided to pass along the costs to their customers, such as auto and appliance makers.

For the past year, nearly every steelmaker world-wide has raised its prices for spot steel, resulting in an average of 40% to 50% boosts. Hot-rolled steel, a foundation steel product that is then processed further into cars, appliances, construction equipment and other commercial uses, is now hovering at about \$1,000 a metric ton on the spot market, depending on which part of the world the buyer is located. About a year ago, it was selling at about \$650 to \$700 a metric ton.

Prices are so high that some countries, including India, have temporarily frozen prices. Other countries, such as Egypt, China and Brazil have dramatically lowered the amount of exported steel so that they can guarantee a supply of their own steel. Venezuela has rationalized its biggest steelmaker, in part to ensure a cheap supply of domestic steel.

Steel sold on the spot market represents only about 20% to 25% of steel produced. While spot prices are higher, there isn't enough steel sold on that market to recoup higher raw-materials costs. ArcelorMittal is likely going after contract customers to help recoup the costs it can't recover on the spot market.

Other steelmakers are under the same pressures. **AK Steel Corp.** said it has no intention of assessing a blanket surcharge to its contract customers. But under their existing contract rules, says spokesman Alan McCoy, there is some wiggle room to increase negotiated prices if raw-materials prices rise or fall during the life of the contract.