



Malaysian Iron & Steel Industry Federation

Co. Reg. No. 76350P GST Reg. No. 001781899264



Malaysia Steel Association
(Reg. No. PPM-007-10-
07072010)
Level 15, Lion Office Tower,
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PRESS STATEMENT

STEEL ASSOCIATIONS CALL FOR IMMEDIATE FREEZE OF MANUFACTURING LICENCE FOR NEW INVESTMENTS IN LONG AND FLAT STEEL PRODUCTS IN MALAYSIA TO ADDRESS THE INDUSTRY OVERCAPACITY

Kuala Lumpur, 4 February 2020 - MISIF and MSA oppose the proposed new investment from Wenan Steel Project (“Wenan”) at Samalaju Industrial Park (SIP), Bintulu, Sarawak, within Sarawak Corridor of Renewable Energy (SCORE).

If allowed to materialize, the local steel industry expects the proposed 10 million MT per annum steel project to further exacerbate the overcapacity in the country due to the following reasons:

1. Steel industry in Malaysia is already facing **substantial overcapacity situation**:
 - Malaysia’s total steel consumption in 2018 was 9.77 million MT but the total installed capacity was 24.64 million MT, with 12.64 million MT and 12.00 million MT for long and flat respectively.
 - National long products’ capacity utilisation deteriorated from nearly 46% in 2014 to about 28% in 2018 due to the emergence of another China-owned mill in the east coast of West Malaysia producing the same type of products by adding 3.5 million MT to the existing local capacity. The presence of this mill has caused nearly half a Billion Ringgit of losses for the four key domestic long products steel mills in the last four quarters which otherwise would have been profit-making and contributed significantly to the Government's tax coffers.
 - For flat products, the HRC production capacity is temporarily idle and already in the process to resume production. Average domestic demand of HRC was about 1.68 million MT in 2018 but the existing installed and upcoming HRC new capacity to be installed from existing manufacturing licenses will easily reach 6 million MT. If all the 1.68 million MT of HRC demand are to be supplied by the local mills, the utilisation rate is at a mere 28%.
 - Globally, steel companies typically require around 70%-80% capacity utilisation to be sustainable.
 - **Thrice the size of the newly built steel mill in the east coast of West Malaysia mentioned above and bigger than the total steel consumption of 9.77 million MT, the proposed 10 million MT per annum similar production capacity from Wenan will result in the further oversupply within the domestic industry, thus causing severe misallocation of resources and irreversible damage to the Malaysian steel industry.**
2. If new production capabilities are left unchecked, it could result in the **retrenchment** of 8,000 local employees from the existing mills throughout Malaysia which is against the public interest.



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3. This comes at a critical time when local steel millers are in the midst of working towards consolidation or reconfiguration to improve its competitiveness via re-investment of hundreds of million Ringgit in new technology and know-how transfer to develop highly skilled Malaysian specialists.
4. The steel associations welcome Foreign Direct Investment (FDI) and Domestic Direct Investment (DDI) in steel grades and products which are not manufactured locally, for example railway tracks, seamless pipes, hot-rolled sheet piles and electrical steel sheets, to move up the supply value chain. **Manufacturing licences** (ML) for **same (like) products** which are being produced by existing local steel mills shall not be approved.
5. Domestic scrap supply was 2.96 million MT in 2018 with the shortfall of 558,000 MT met by imports. If Wenan were to produce 10 million MT steel products with conventional scrap consumption of 20%, it would require up to 2 million MT of scrap metal which is 67.6% of domestic scrap supply in 2018 (i.e. 2.96 million MT). Scrap demand of existing steel millers can only be met via imports and this will lead to foreign exchange loss, trade deficit and outflow due to service costs, freight and insurance charges.

As active members of the Malaysia Steel Council (MSC), the federal level multi ministries platform under the Ministry of International Trade and Industry (MITI), MISIF and MSA welcome the opportunity to engage with all stakeholders such as the Sarawak State Government and all new investors to chart positive paths to upgrade and develop our local steel industry with new technologies and manufacturing of new and high value added products.

Statement by:

Malaysian Iron and Steel Industry Federation (MISIF)

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