



# Indonesia: Heavy Equipment Market Brief

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## Summary

After years of being in the doldrums in the wake of the 1997/1998 monetary crisis, Indonesia's heavy equipment industry began to revive in 2003. In 2004, sales were triggered mainly by the mining industry boom. The strong revival of heavy equipment business is also attributed to expanding agribusiness and forestry sectors. Furthermore, the construction industry began to grow in 2004. Meanwhile, the government has pursued infrastructure projects which required large numbers of heavy equipment.

In the past eight years, sales of heavy equipment reached the highest level in 2007 with total sales of 7,506 units. The positive economic outlook for Indonesia in 2008 has created a mood of optimism among suppliers of heavy equipment. Agriculture, forestry, construction and mining sectors are expected to remain attractive markets for heavy equipment, driven by the expansion of forestry and agricultural plantations.

## Market Demand

Mining, agribusiness, construction, and forestry sectors are the main factors that drive the market growth. Driven by global demand of commodities with high prices, it is believed that the upcoming demand for heavy equipment will continue to stay strong.

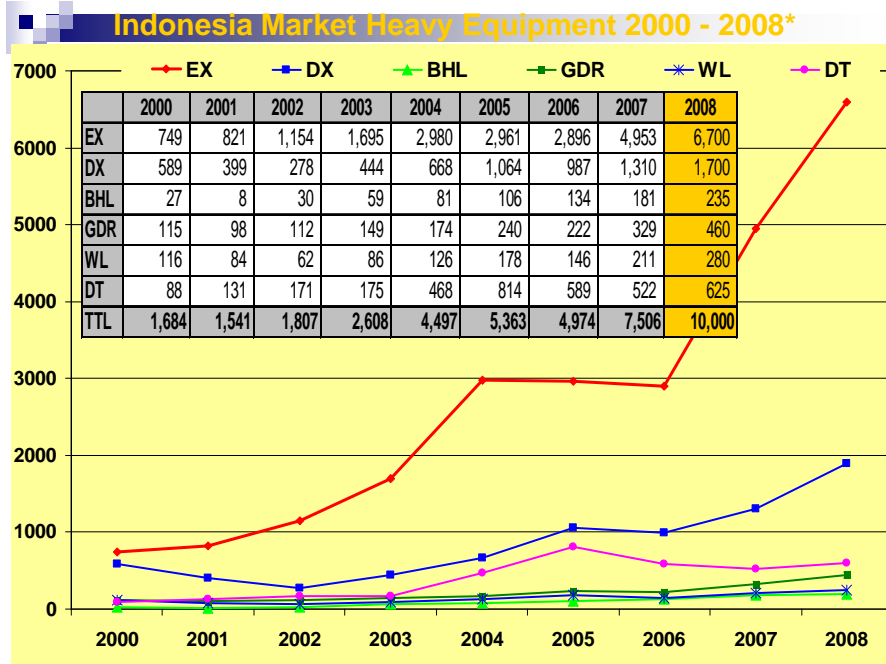
In mining sector, the increase demands for heavy equipment primarily comes from mining commodities such as coal and metal mineral that includes nickel, tin, iron ore and gold.

Demand for heavy equipment has increased in the agribusiness sector, particularly palm oil plantations. Crude Palm Oil (CPO) is growing in demand in both domestic and international markets. Indonesia and Malaysia are by far the world's largest producers of palm oil, together accounting for 85.7% of the world's total production. The rapid increase of price of crude palm oil (CPO) to \$1,176 in June 2008 has encouraged companies to expand and open new plantation areas.

The construction sector is one of the highest priorities for Indonesia's government. The government has planned large-scale infrastructure projects in five priority sectors including transportation, gas pipelines, electric power, water supply resources, and telecommunications. The projects, which span the country for the 2005-2009 period, are designed to attract foreign investment and boost annual economic growth to over 6 percent.

In the forestry sector, pulp producers are urged to reduce the exploitation of natural forests and focus their activities in the industrial forests and expansion of acacia plantations, resulting in an increase in sales of forestry equipment.

## Market Data



Source: Indonesian Heavy Equipments Sole Agent Association (PAABI)

Note:

(\*) = Forecasted figures

EX = Hydraulic Excavator

DX = Bulldozer

BHL = Backhoe Loader

GDR = Motor Grader

WL = Wheel Loader

DT = Dump Truck (Rigid & Articulated)

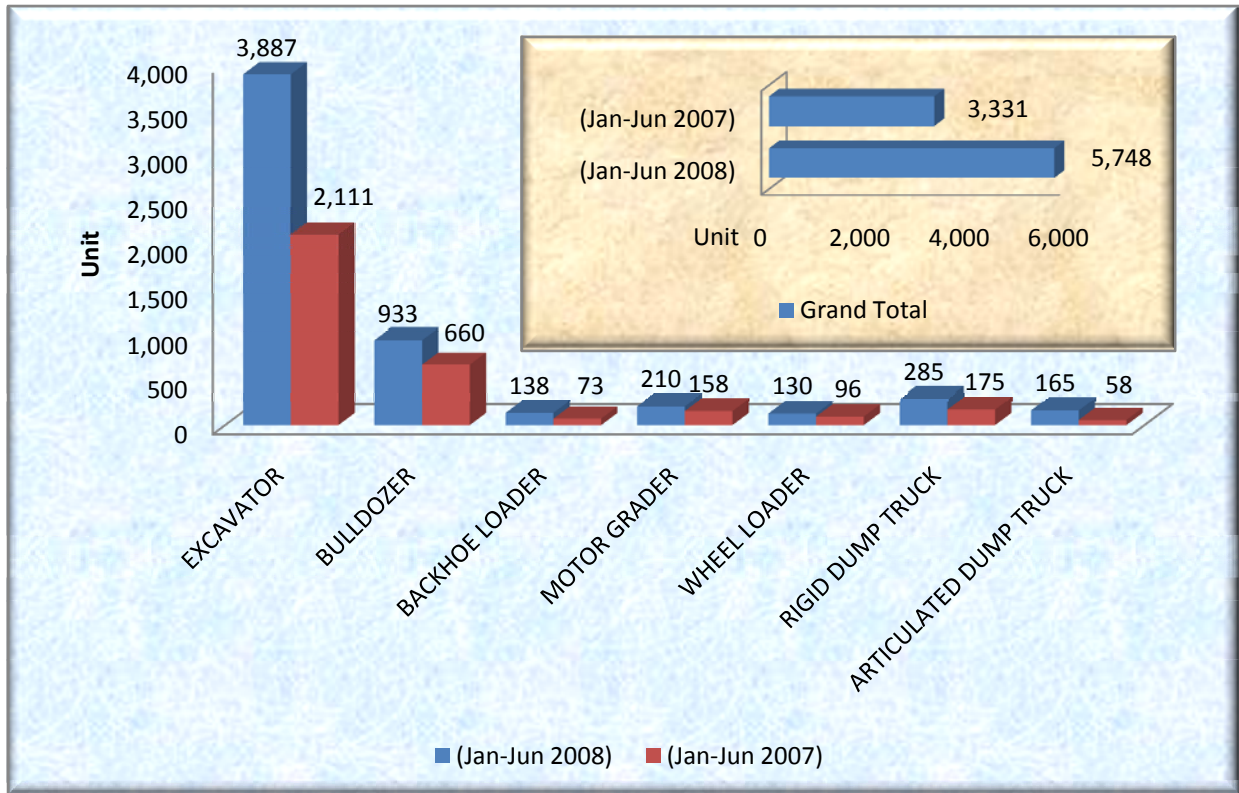
### Heavy Equipment Market Demand January - June 2008 vs January - June 2007

No	MACHINES	2008		2007		Deviation	
		(Jan-Jun)		(Jan-Jun)		Qty	%
1	EXCAVATOR	3,887	67.6%	2,111	63.4%	1,776	84.13%
2	BULLDOZER	933	16.2%	660	19.8%	273	41.36%
3	BACKHOE LOADER	138	2.4%	73	2.2%	65	89.04%
4	MOTOR GRADER	210	3.7%	158	4.7%	52	32.91%
5	WHEEL LOADER	130	2.3%	96	2.9%	34	35.42%
6	RIGID DUMP TRUCK	285	5.0%	175	5.3%	110	62.86%
7	ARTICULATED DUMP TRUCK	165	2.9%	58	1.7%	107	184.48%
<b>GRAND TOTAL</b>		<b>5,748</b>	<b>100%</b>	<b>3,331</b>	<b>100%</b>	<b>2,417</b>	<b>72.56%</b>

Source: Indonesian Heavy Equipments Sole Agent Association (PAABI)

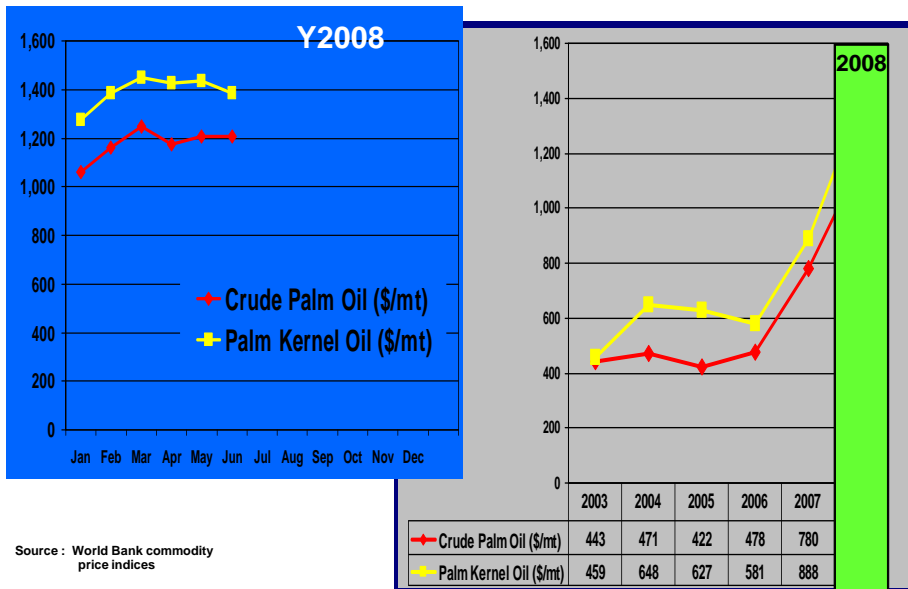
### Heavy Equipment Market Demand

January – June (2008 - 2007)



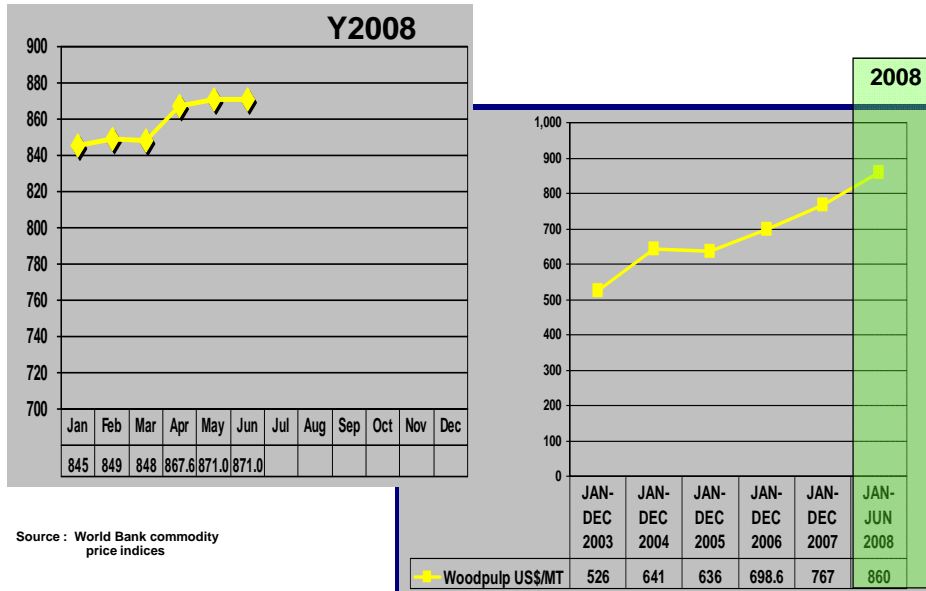
Source: Industry sources

Commodity Price Palm Oil



Source: World Bank commodity price indices

## Commodity Price Wood Pulp



### Infrastructure Projects

Tanjung Priok toll road -12.1 Km, Rp. 3.4 trillion - tender is scheduled for September 2008.

Toll road construction projects scheduled for 2009

- Depok-Antasari by Citra Wasphtowa, 21.7 Km
- JORR W2 by Jasaarga 7 Km
- Bogor Ring Road by Marga Sarana Jabar 11 Km
- Semarang- Solo by Jasa Marga 75.7 Km
- Kertosono-Mojokerto by Marga Hanurata Intrinsic 41 Km
- Cinere-Jagorawi by Trans Lingkar Kita Jaya 14.7 Km
- Gempol-Pasuruan by Jasa Marga 32 Km
- Gempol Pandaan by Margabumi Adhikarya 13.61 Km
- Semarang-Batang by Marga Setiapuritama 75 Km
- Ciawi-Sukabumi by Trans Jabar 54 Km
- Bekasi-Kp Melayu by Kresna Kusuma Dyandra Marga 21 Km

### Best Prospects

Industry sources identified the following sectors as having good prospects for heavy equipment:

- Agriculture: excavator, dump truck, backhoe loader
- Forestry: excavator, bulldozer, wheel loader, dump truck
- Construction: excavator, backhoe loader, wheel loader, compactor
- Mining: excavator, bulldozer, motor grader, wheel loader, dump truck, scarper

### Key Suppliers

The Indonesian heavy equipment market is dominated by four players: Komatsu, Caterpillar, Hitachi, and Kobelco. PT United Tractor which is the sole agent of Komatsu and a number of other brands, dominates the local market with a 40 to 45 percent share. In 2007, the total sales reached Rp 18.2 trillion, an increase of 32% from the previous year.

PT Hexindo Adiperkasa engages in heavy equipment trading and after-sales services for the principal brand of Hitachi. represents Hitachi and reported sales of \$99 million in 2004, 50 percent or \$66 million more than the previous year.

Intraco Penta which represents several brands, including U.S. brands Mack heavy-duty trucks, Bobcat skid steer loaders, Ranger skidders, and P&H mining equipment, also reported an increase in income of \$40 million in 2004, an increase of 81 percent from 2003. Other heavy equipment companies reported similar sharp increases in profit in 2004.

### **Prospective Buyers**

Prospective buyers of heavy equipment come from various sectors such as agriculture, forestry, construction and mining. The growing demand for CPO certainly has greatly benefited heavy equipment producers. A number of major plantation companies such as PT Astra Argo Lestari, PT Bakrie Sumatra Plantation, Sinar Mas, and PT PP London Sumatra have reported gains.

In the forestry sector, the government has encouraged development of plantation forests (HTI) to guarantee supply of raw material for pulp. In 2009, the pulp industry is expected to be able to rely entirely on HTI for wood raw materials. The country's natural forests, therefore, would be allowed to recover from years of destruction. Indonesia has around 20 pulp producers with a total production capacity of over 6 million tons a year. The largest among the companies are PT Indah Kiat Pulp & Paper, PT Riau Andalan Pulp & Paper, PT Lontar Papyrus Pulp & Paper.

### **Market Entry**

U.S. companies should appoint Indonesian agents/distributors to market heavy equipment and spare parts in Indonesia. Local agents or distributors play an important role in developing the market and providing after-sales services. Good agents/distributors are instrumental in obtaining both public and private sales leads.

The market for heavy equipment is highly competitive. The pricing, although often decisive, is not the only factor in this competitive market. Others include most prominently high quality and reliability of the products, after sales services, effective promotional efforts, being able to put together comprehensive and competitive bidding packages, recruiting a strong agent with an extensive distributional network and good contacts. These are some of the vital factors that must be paid attention to, in order to become a successful player in the Indonesian heavy equipment market.

To gain market share, US companies need to develop more flexible marketing approaches. Lack of financing is a key reason why US companies have limited success when selling to the government. According to distributors, inflexibility in terms of sales, payment schedules, and length of contract also act as a hurdle to building strong business relations and market presence.

It is important to offer good credit terms, as Japan and other European countries offer soft loans to Indonesia. Indonesian buyers will actively seek preferential financing terms from their suppliers.

Because of the enormous market potential, American companies should aggressively pursue the Indonesian market and should strive to introduce new products to the market ahead of their competitors.

### Market Issues & Obstacles

There are no major market barriers for heavy equipment imports in Indonesia. Most heavy equipment has 0 to 10 percent import tariffs. All sales to Indonesia are subject to a 10 percent Value Added Tax (VAT).

Effective January 1, 2002, Indonesia, along with its regional partners, fully implemented the ASEAN Free Trade Agreement (AFTA). Indonesia has now reduced tariffs for all products included on its original commitment (7,206 tariff lines) to five percent or less for products of at least 65 percent ASEAN origin. The government will reduce rates on 66 remaining tariff lines, mostly in the chemicals and plastics sectors, to the 5 percent AFTA ceiling in 2003.

### Trade Events

Manufacturing Indonesia 2008  
Date: December 2 – 5, 2008  
Venue: Jakarta International Expo, Kemayoran  
PT. PAMERINDO BUANA ABADI  
Deutsche Bank Building, 13th Floor  
Jl. Imam Bonjol No.80  
Jakarta 10310, Indonesia  
Tel. +62 21 316 2001  
Fax. +62 21 316 1981, 3161983, 3161985  
[www.pamerindo.com](http://www.pamerindo.com)  
Email: [info@pamerindo.com](mailto:info@pamerindo.com)

### Resources & Key Contacts

Association of Indonesian Heavy Equipment Agent (PAABI)  
Gedung Putra Kalimantan Lt. 6/ 05  
Jl. Gatot Subroto Kav. 12  
Jakarta 12930, Indonesia  
Tel: (62-21) 527-7150  
Fax: (62-21) 527-7150  
Email: [paabi@cbn.net.id](mailto:paabi@cbn.net.id)  
Contact: Mr. Hendrik K. Hadiwinata, Chairman

### For More Information

The U.S. Commercial Service in Jakarta, Indonesia can be contacted via e-mail at: Email: [kalung.riang@mail.doc.gov](mailto:kalung.riang@mail.doc.gov); Phone: (62-21) 526-2850; Fax: (62-21) 526-2859 or visit our website: [www.buyusa.gov/indonesia/en](http://www.buyusa.gov/indonesia/en).

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