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REPUBLIC OF INDONESIA

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POLITICS

Link Climate Change, Poverty, Yudhoyono tells UN

The solution to the problems posed by climate change must be linked to sustainable development so that the world's least affluent countries could conquer poverty, President Susilo Bambang Yudhoyono told the UN General Assembly on Tuesday (25/9/07), Antara reported.

According to a statement made available by the UN News Center, Yudhoyono, who was speaking at the annual debate at the UN Headquarters in New York, said it is important not to lose sight of the fight against poverty when trying to combat climate change.

He said the global summit to be held in Bali this December "must yield a new roadmap" that spells out what both the developed and developing world must do "to save humankind and its planet from the looming tragedy of climate change."

The Bali summit seeks to determine future action on mitigation, adaptation, the global carbon market and financing responses to climate change for the period after the expiration of the Kyoto Protocol -- the current global framework for reducing greenhouse gas emissions -- in 2012.

Yudhoyono said the summit must produce an outcome and timeline that will be more comprehensive and more ambitious in achieving its practical objectives to reduce greenhouse gas emissions.

"We, developing countries, must protect our natural resources while using them wisely for development," Yudhoyono added.

He said he is optimistic that there is now a window of opportunity to strike a global consensus to deal with global warming.

Indonesia also launched a Special Leaders' Meeting of Tropical Rainforest Countries on Monday and the president said participating nations have agreed to strengthen their cooperation so that forests can be better conserved.

"We also believe that countries that seek to enhance their carbon sinks -- through forestation, avoided deforestation -- should be given incentives and rewarded fairly for doing so," he said.

Yudhoyono, WB President Meet on StAR Initiative

President Susilo Bambang Yudhoyono, at a meeting with World Bank president Robert B. Zoellick on Tuesday, agreed that bank and UN Office on Drugs and Crime (UNODC) personnel will visit Indonesia to further develop technical assistance under the Stolen Asset Recovery (StAR) Initiative.

The meeting took place at the UN Headquarters on the sidelines of the 62nd UN General Assembly, said a joint statement issued after the meeting.

The joint statement did not specifically mention former president Suharto, who was earlier reported to be one of 10 former leaders likely to be affected by the initiative.

Suharto was on top of a list of former world leaders who allegedly stole huge amounts of state assets in the past few decades. The list was issued by the UN and the World Bank on September 17, together with the launch of the StAR Initiative.

In a table on "funds allegedly stolen from nine countries" that appeared in a guidebook on StAR, Suharto was said to have stolen state funds amounting from \$15 billion to \$35 billion.

Yudhoyono and Zoellick said in their joint statement that the StAR Initiative is a unique and innovative program.

According to the two, the program would enable both developing and developed nations to benefit from efforts to implement the UN Convention Against Corruption issued in 2003.

"Indonesia has expressed its wish to participate in the initiative to strengthen its capability in implementing the 5th Article of the UN Convention Against Corruption on asset recovery, particularly in tracing, freezing and returning the assets under its jurisdiction," the statement said.

The World Bank also pledged technical and financial assistance for climate change management programs as part of its wider support for Indonesia's development agenda.

The pledge was contained in the joint statement between the World Bank and the Indonesian government after the meeting.

Jakarta Pushes UN Reform

Indonesia wants reforms in the UN Security Council to reflect a balanced representation of the world's diverse cultures and civilizations rather than just the addition of more members, Foreign Minister Hassan Wirayuda said on Tuesday (25/9/2007), *The Jakarta Post* reported.

"Without ensuring balanced representation, the expansion of the Security Council may result in new gaps between developed and developing countries," he said.

The grand expectation for a breakthrough in reforming the Security Council that came during the 2005 UN Summit has lost its momentum and needs a boost, Wirayuda said.

Simply adding members based on a region would not address the criticisms of the council that suggest it works in favor of its permanent members who possess veto power.

"For instance, 1.3 billion people in Islamic countries are not well represented in the Security Council," he said. "It's about time we have democracy at the international level."

The US, one of the veto-wielding permanent members of the Security Council, on Tuesday endorsed its ally Japan to be considered as the sixth permanent member. Other permanent members are China, France, Russia and Britain.

Major Parties Approve 30% Quota for Women

Major parties in the House of Representatives have agreed to set a 30% quota for women as party executives in the bill on political parties, local reports said Friday (28/9/07).

Golkar Party, Indonesian Democratic Party of Struggle (PDI-P), National Awakening Party (PKB), United Development Party (PPP) and National Mandate Party (PAN) agreed that the bill should explicitly stipulate that 30% of the positions at the parties' central executive boards, provincial chapters and regional branches be given to women.

The gender equality issue was raised in Thursday's deliberation session between a House special committee on the bill and Home Affairs Minister Mardiyanto and Justice and Human Rights Minister Andi Matalatta.

Eva Sundari of PDI-P stressed the importance of regulating gender equality to show parties' commitments to gradually phasing out gender inequality, accepting the reality that the majority of voters were women and showing support for women's roles in families and child education.

"A moral commitment must be backed up by a political commitment to empowering women and their roles in society," she said.

REGIONS

Jakarta Told to Prepare for Earthquakes

Jakarta is not among quake-prone regions, but it must prepare for the destructive impact that earthquakes may exert on high-rise buildings.

Jakarta Governor Sutiyoso said at the opening of a seminar on Wednesday (26/9/07) that the city was vulnerable to earthquakes because of subsurface instability and buildings that were not up to modern earthquake standards.

The seminar, which was aimed at evaluating existing disaster policies and improve earthquake safety awareness, told the city to make buildings earthquake-ready, improve seismic risk assessment and quickly alert residents about quake activity, *The Jakarta Post* reported.

According to the governor, most Jakarta buildings were high tech and built with underlying soil conditions in mind. However, even modern buildings would not necessarily be able to tolerate a quake measuring eight plus on the Richter scale, added the head of the city's building planning and control agency, Hari Sasongko.

"It's very costly to prepare (buildings) to withstand the more powerful earthquakes, and it will require redesign," he told reporters on the sidelines of the seminar.

He added that all buildings with permits were already in line with current earthquake risk compliance standards.

Navy Foils Piracy Attempt in Malacca Strait

The Indonesian Navy on Monday (26/9/07) foiled a hijacking attempt by a group of pirates that boarded Kraton tanker, which was transporting 2,294 tons of cooking oil across the Malacca Strait, *The Jakarta Post* reported.

The tanker departed from Palembang, South Sumatra, en route to Cilacap in Central Java, and was attacked by 14 pirates at the mouth of the Musi River on the Saturday before.

Ruskandi, the captain of the tanker, told *Post* on Tuesday that after sailing for five hours from the Musi River near Palembang, a group of people in a small boat approached the tanker and climbed on board waving pistols.

"A number of the tanker's crew members were kidnapped. I immediately informed Teluk Bayut port's administration about the incident ... told the officers the pirates had brought bombs with them and were ready to use them," Ruskandi said.

He said the pirates took over the tanker, which was transporting cooking oil worth around Rp22 billion, and steered the tanker in the direction of Malaysia or Singapore. He said all crew members, including himself, were tied up.

Commander of the Navy's West Fleet Commodore Denny Novendy said the piracy attempt was foiled after the Navy deployed six of its warships. "The warships intentionally hit the tanker to give the pirates a fright. With only one shot fired by the pirates, the Navy managed to overpower them without causing any casualties," Denny said.

He said the group of pirates was led by Hussien, who is based in Palembang. He added the group was equipped with a 200-horsepower speedboat and a number of pistols and sharp weapons.

Tests Clear Suspected Bird Flu Death

Two tests on samples from a woman feared to have died of bird flu in Bandung, West Java, have cleared her of carrying the virus, a health ministry official said Tuesday (25/9/07).

"Both test results were negative," said Ningrum, a doctor on duty at the health ministry's bird flu information centre told Agence France-Presse.

She was referring to a 30-year-old woman who died in hospital in Bandung on September 22 displaying symptoms of infection with the H5N1 virus.

Two tests, usually of samples of blood and tissue, must come back positive for the virus before a victim is confirmed as infected in Indonesia.

Thousands of Police to Be Deployed on Idul Fitri

The government will deploy around 60,000 extra police as the country gears up for celebrations to mark the end of the fasting month of Ramadhan next week, police said Wednesday (26/9/07).

National police spokesman Iman Haryatna said the police would particularly focus on Java, Bali, and Lampung province. "The troops will not only patrol these areas in anticipation of road accidents but also other security threats including terror threats, even though the probability is low, because terrorists are still at large," he said.

Additional troops will also be deployed to lower priority areas, including the rest of Sumatra, Kalimantan, Sulawesi and West Nusa Tenggara, Haryatna told a press briefing.

Every year millions of Indonesians head home on overcrowded buses, trains, ships and planes to celebrate the Idul Fitri holiday with their families.

Volcanic Activity at Mt. Kelud Intensifies

Volcanic activities at Mount Kelud, located on the border between Kediri and Blitar regencies in East Java, have intensified over the last few weeks, *The Jakarta Post* reported on Thursday (27/9/07).

Head of Kelud emergency response team Umar Rosadi said in Kediri on Wednesday the increase in temperature to 36.5 degrees of the 15-meter-deep lake in Kelud's crater was an indication of increased volcanic activity. The normal temperature is 32 to 34 degrees.

Located about 150 km to the southwest of Surabaya, an alert status is in place for Mount Kelud and increasing volcanic activity is predicted. "The air temperature when Mount Kelud exploded in 1990 was 40 degrees, with the level of acidity at the lake's water reaching 3.5," Umar said.

ECONOMY

S&P Affirms Ratings

Standard & Poor's Ratings Services affirmed its ratings on the Republic of Indonesia with a stable outlook on Tuesday (25/9/07), saying the ratings are underpinned by continued improvements in the nation's debt and external liquidity positions.

S&P has 'BB-/B' foreign currency and 'BB+/B' local currency ratings on Indonesia, Thomson Financial reported.

General government debt is expected to decline further to 44% of GDP this year, down from 46% in 2006 and over 100% in 2000. This reduction comes on the back of small, but persistent primary surpluses, a falling interest burden, and strong nominal GDP growth.

"Despite a modest rise in the central government deficit, we expect the government to adhere to fiscal discipline," said S&P analyst Sani Hamid. The current account surplus continued to grow and there were steady FDI inflows and portfolio investments, he added.

Vice President Jusuf Kalla hailed a dramatic short-fall in government spending as evidence that the government's anti-corruption campaign was biting.

He said Friday that the country had only spent about a third of its proposed capital investment in the first months of 2007, Bloomberg News reported.

The government planned to spend Rp68.3 trillion (\$7.5 billion) to build roads, bridges, government offices and other public facilities when it announced the budget for this year.

"Contract prices were revised down as transparency increased," Kalla told reporters in Jakarta. He cited the Health Ministry as an example, where the purchase price of supplies was cut by 40% from the original estimate.

In a positive sign on the infrastructure front, the finance ministry said the government would provide full guarantees for loans provided by the creditors of state-owned electricity company PLN to finance its crash program in electricity sector.

A presidential regulation issued on September 19 is expected to speed up the implementation of the program under which state utility PLN is to build coal fired power plants with a total capacity of 10,000 MW to be completed before 2010.

The stock market closed the week on a cautious note, with the Jakarta Stock Exchange composite index falling 0.8% on Friday to close the week at 2,359.21. For the week, the index rose 23.72 points or 1.0%, at one stage hitting a two-month high.

Dealers said Friday that investors cut their positions ahead of September CPI data due out on Monday. The rupiah firmed during the week to end at 9,145/9,150 to the US dollar.

Most analysts expected relatively high inflation for September as the Idul Fitri holiday season approaches.

Strong investor confidence was apparent when the government sold a total of Rp6.95 trillion (\$762 million) in bonds, as investors looked to lower interest rates.

Bank Indonesia Deputy Governor Miranda Goeltom said Tuesday that the central bank is likely to next consider a further rate cut in November.

BUSINESS BRIEFS

MACROECONOMY

No Rate Move Before November: BI

Bank Indonesia's (BI) next rate move, if any, won't come until November despite its easing bias because of higher expected inflation in September and October, Deputy Governor Miranda Goeltom said Tuesday (25/9/07).

"Inflation in September and October is estimated to be somewhat higher than in previous years due to seasonal factors. Meanwhile for November's inflation, (BI) estimates that it will be lower, so the central bank will make a decision (on rates) at that point," Goeltom was quoted as saying by Dow Jones Newswires.

Headline inflation will likely be higher for September and October compared with previous years because of the Islamic fasting month of Ramadhan.

Indonesian borrowing costs are likely to continue to fall as the government aims to take advantage of strengthening domestic demand by encouraging businesses to expand via lighter loan repayments, Goeltom added.

"We see that room remains for monetary policy easing, but when that can be done remains to be seen. We have already paused twice, and going forward we have to be cautious," she said.

BI's monetary loosening cycle began in May 2006 after inflation began to ease. Since then, the central bank has cut its BI Certificate (SBI) rate every month except on two occasions. The benchmark rate stands at 8.25%.

Meanwhile, the recent cut in US borrowing costs has further widened the interest rate differential between the dollar and rupiah, drawing investors to buy the currency and rupiah-denominated assets, Goeltom said.

She added however that there is a risk capital inflows into Indonesia could be only short-term in nature.

Meanwhile, Coordinating Minister for the Economy Boediono said Wednesday that September inflation "is still under control" as prices of most staples are stable and supplies sufficient.

"Prices of commodities like rice and sugar have so far been stable... and (because of) this I think the inflation in September should be good," Boediono said.

Rupiah Rises to Near Two-Month High

The rupiah rose to near its strongest in two months on speculation overseas investors will increase holdings of emerging-market assets.

The rupiah extended September's gain to 2.6% as expectations the US Federal Reserve will keep cutting interest rates increased, giving investors confidence to put more money into local stocks and bonds. The difference in yield between 10-year Indonesian and US debt widened on Wednesday (26/9/07) to the most in a week, Bloomberg News reported.

"I like the Indonesian rupiah," said Magnus Prim, a senior foreign exchange strategist at Skandinaviska Enskilda Banken in Singapore. "The fact that we see a return of more risk appetite is a positive development."

The rupiah was steady at 9,145/9,150 to US dollar late on Friday. Interest-rate futures show an 88% chance the Fed will lower its benchmark by a quarter-percentage point to 4.5% at its next meeting on October 31, up from 80% the previous week.

The Fed recently cut the rate to 4.75% from 5.25%, where it had been since June 2006.

The rupiah headed for a third weekly gain as the yield premium investors earn on 10-year government bonds over similar-maturity US Treasuries rose to 4.58 percentage points, the highest since September 19.

BI Sees 2007 Forex Reserves Up 28%

The central bank said on Thursday (27/9/07) that it expects foreign exchange reserves to rise to \$54.4 billion by year-end, up 28% from the end of 2006, due to an improvement in the balance of payments, Reuters reported.

It also said the current account surplus would increase to \$10.8 billion this year, from \$9.9 billion in 2006, thanks to strong exports.

"The main driver of the increase in the surplus is the better-than-expected performance of the non-oil and gas exports, which were supported by global economic growth and better prices for exported commodities," the central bank said in a statement.

The central bank also said that total foreign investment in 2007 could reach \$17.6 billion, beating last year's total of \$14.8 billion.

"The government's efforts to improve the investment climate, and the projects that were offered, have pushed the foreign investment inflow up," the central bank said.

Bank Indonesia (BI) estimated that non-oil and gas exports would increase 16% in 2007, growing at a slower pace than last year when such exports rose 20.7%.

But the country's non-oil and gas imports are expected to climb 17% on strong domestic demand, growing faster than last year when they rose 8%.

Govt. Sells Rp6.95t Bonds

The government sold Rp3.45 trillion in bonds maturing in 2028 to investors in an auction on Tuesday (25/9/07), and another Rp3.5 trillion maturing 2018 in a separate auction, a senior Finance Department official said.

The bonds maturing in 2028 were sold at an average yield of 9.899%, director-general for treasury Harry Purnomo said, according to Dow Jones Newswires. Those maturing in 2018 sold at an average yield of 9.399%, he said.

INVESTMENT

Jakarta Bourse Set to See 25 New Listings

The Jakarta Stock Exchange (JSX) said it is optimistic it would hit its target of listing 25 new companies this year, Antara reported on Tuesday (25/9/07).

JSX listing director Sugito Eddy said property company PT Jaya Konstruksi plans to launch an initial public offering (IPO) in the last quarter of the year. Jaya Konstruksi submitted its plan to the JSX two weeks ago, he said.

The company, however, has not decided on the number of shares to be offered to the investing public, he said.

He said Duta Graha Indonesia, another property company, also plans an IPO in the last quarter of the year.

Holcim Considering Building New Factory

Swiss cement maker Holcim is looking into building a new factory in Indonesia, but has yet to make a decision, a spokesman for the group said on Monday (24/9/07).

"It is correct that Holcim is looking into building a new factory. The process has not been completed, no decision has been reached," the spokesman said, according to Reuters.

Bisnis Indonesia reported that Holcim would spend \$300 million building a new factory in Tuban, East Java through its PT Holcim Indonesia subsidiary.

The Holcim spokesman declined to comment on financial details.

Massive Bridge to Connect Java, Sumatra

The provincial governments of Banten and Lampung are expected to sign an agreement with PT Artha Graha Network soon on the construction of a Rp94 trillion bridge over the Sunda Strait separating Java and Sumatra.

Banten Governor Ratu Atut Chosiah said Thursday (27/9/07) a precise date for the signing has not been set because they were still waiting for confirmation from the Transportation Department.

Chosiah said the construction of the bridge would be beneficial to all provinces in Java and Sumatra. She said Artha Graha Network, owned by tycoon Tommy Winata, was the only company that has shown interest in investing in the project.

Banten legislative council chairman Adi Surya Dharma said the construction of the bridge would not be a burden to the government if the two provincial administrations could pull in foreign investment for the project.

Separately, Wiratman, a consultant in the bridge project, said the construction of the longest bridge in the country would need at least \$10 billion.

He said the bridge would cross over several small islands such as Ular, Sanghyang and Prajurit. "It will have six lanes for vehicles and a lane for pedestrians," he said, adding that construction would take at least five years.

Dutch Company Looks at Seedlings Industry

A Dutch multinational company is seeking an opportunity to invest in Indonesia's horticultural seedling industry, an Agriculture Department official said on Monday (24/9/07).

The company wants to invest in an industry producing vegetable and fruit seedlings, Director General of Horticulture Achmad Dimiyati said.

"The company is now eyeing such an industry to invest in and we hope it can be realized," he was quoted as saying by Antara.

He said he had shown the company some areas suitable for a seedling industry, including locations in Berastagi and Karo, North Sumatra; Batu, Malang in East Java; Wonosobo in Central Java; Cianjur in West Java; Malino in South Sulawesi and in South Sulawesi.

STATE CONCERNS

Additional Rice Imports May be Needed

The country may need additional rice imports of up to 700,000 tons this year to secure national stocks, State Logistics Agency (Bulog) chief Mustafa Abubakar said Thursday (27/9/07).

"Bulog may import 500,000 to 700,000 tons of rice in addition to the import quota of 1.5 million tons," Abubakar was quoted as saying by Reuters. He said the agency would still have to apply for import permits from the Trade Department.

He said local rice output may fall in October as the rice harvest season ended in September, while demand is expected to increase sharply due to the holy month of Ramadan and year-end festivities.

Indonesia has limited imports of the grain since 2004 to combat smuggling, which disrupts local prices, particularly during the harvest period. Rice imports are allowed if Bulog's stocks fall below 1 million tons or local prices of medium grade rice rise above Rp3,550 (\$0.389) a kg.

The additional rice imports are released to the market when there is a jump in local prices.

Indonesia Prepares for Holiday

The government has decided not to increase the economy class fare of sea transportation during the upcoming Idul Fitri holidays, while national carrier Garuda Indonesia will put on extra flights.

Operators of all sorts of transport will mobilize all their fleet, while the Navy will also assist in taking an estimated 14 million people who will make the once-a-year return to their home villages.

The secretary to the Director General for Sea Transportation Ajiph N Anwar said Tuesday (25/9/07) that sea transportation fares had been raised in June, and no additional rise was needed.

There are 25 ships operated by state-owned PT Peln and another 503 ships belonging to private companies ready to serve Indonesians traveling to their hometowns for Idul Fitri, with an overall capacity to transport more than 3 million passengers.

Anwar said the government has estimated a 5% increase in the number of sea transportation passengers from 509,509 during Idul Fitri last year to 534,985 this year. The figure represents only 4% of the total Idul Fitri exodus of more than 14 million people estimated for this year.

"Even though the number of people who use sea transportation has decreased over the past three years due to low-cost air transportation carriers, there is still a market in short-route shipping," Anwar said.

Meanwhile, Garuda Indonesia's corporate communications chief Pujobroto said Thursday the airline will add 13,604 more seats to meet the surge in demand ahead of and after the Idul Fitri holidays.

"We are adding 13,604 seats. If those are added to the previous 28,839 seats, we will have a total of 42,443 additional seats available for Idul Fitri," he said, according to *The Jakarta Post*.

The seat capacity will be increased from October 9 to October 21 by operating bigger planes or increasing flight frequency.

He said the additional seats would be given to 11 flight routes, comprising eight domestic and three international routes.

Private airlines are also expected to boost flight schedules while bus operators and train services are also expected to sell out seats well before the holiday begins.

SOEs

Garuda to Add Nagoya Route

Garuda Indonesia will reopen its Denpasar-Nagoya route beginning in June 2008 using Airbus 330s, regional manager for Japan, South Korea, China and the United States M. Arif Wibowo said Friday (28/9/07).

"The Denpasar-Nagoya route was closed early this year for security reasons. Garuda will reopen it and serve the route on Mondays, Wednesdays, and Fridays," he said. The decision to reopen the route was based on market research which showed significant cargo business potential on the route.

Garuda is currently flying a Tokyo-Denpasar-Jakarta route every day and an Osaka-Denpasar route five times a week.

Semen Gresik H1 Net Profit Up 9.4%

State-owned PT Semen Gresik's first-half net profit rose 9.4% from a year ago as demand for cement grew due to a construction boom in the country.

Semen Gresik said net profit climbed to Rp700 billion (\$76.45 million) in the January-June period, while sales revenue rose 8.4% to Rp4.4 trillion.

"Apart from improving our efficiency, Semen Gresik's performance has also been supported by strong growth in the market outside Java," president director Dwi Soetjipto was quoted as saying by Reuters.

Cement demand from regions outside Java grew by nearly 14% in the first half because of strong commodity prices in key palm oil, rubber and coffee-growing areas. Demand in Java only grew by 2.5% in the period.

The company plans to start building a new cement factory and power plants, costing up to \$1.3 billion, next year as it moves to crank up capacity by about 40% to 22.9 million tons by 2013. Last year, production was 16 million tons.

Semen Gresik estimated that the country's domestic cement consumption would rise 6%-7% in 2008, higher than the 5% forecast by the Indonesian Cement Association, as the sector gradually recovers from a slowdown last year.

Semen Gresik controls nearly half of the Indonesian market. It accounted for 14.34 million tons of total industry sales of 32.1 million tons last year.

Jasa Marga to IPO in November

State-owned toll road operator PT Jasa Marga said Monday (24/9/07) it will sell as many as 2.04 billion shares or 30% of its enlarged capital in an initial public offering slated for November 5-7, Thomson Financial reported.

The IPO price has yet to be determined, but Jasa Marga has said it expects to raise about Rp2 trillion to Rp3 trillion.

The share sale was previously planned for July but was postponed as the government preferred to do it after a road toll hike was implemented. The hike took effect in August.

Jasa Marga said it will use 90% of the proceeds for investment in subsidiaries that will build a number of new toll roads, and the rest for increasing the capacity of existing toll roads.

Lead underwriters for the IPO are PT Bahana Securities, PT Danareksa Sekuritas and PT Mandiri Sekuritas.

Adhi Karya Plans Rights Issue

State-owned construction firm PT Adhi Karya plans to raise Rp600 billion (\$65.53 million) by issuing shares in February to finance its infrastructure projects, the company said Thursday (27/9/07).

The firm, 51% owned by the government, plans to inject \$25 million into a long delayed monorail project in Jakarta to increase its stake to 18.42% from 7.65%, corporate secretary Kurniadi Gularso told Reuters.

Adhi Karya is involved in a number of high-profile projects, from the construction of the monorail in Jakarta to building apartments and public infrastructure.

"It would be a really good time to have a rights issue in February. The government plans to develop many infrastructure projects such as toll roads, power plants or water supply," Gularso said. "The proceeds will be used for our business expansion. We would like to participate in the government's infrastructure projects through a public private partnership program."

Adhi Karya expects net profit to climb 65% to Rp150 billion in 2007, while revenue is expected to climb 45.7% to Rp6.04 trillion.

PRIVATE SECTOR

Indosat Customers Rose 4.8m in H1 2007

Cellular provider PT Indosat added 4.8 million new customers in the first half of the year, the company's president director said Thursday (27/9/07).

As of August, Indosat had 21.5 million customers, Johnny Swandi Sjam said, according to Dow Jones Newswires.

Sjam said Indosat aims to add 6 million to 7 million new customers this year. He added that Indosat's revenue would likely increase 20% this year compared to 2006.

Indosat's capital expenditure this year will total \$1.25 billion, he noted. Among other costs, the company will expand network coverage and offer more services to clients, he said.

Sjam said Indosat will issue at least Rp1 trillion in rupiah-denominated bonds in the second half of the year, but did not elaborate further. Earlier this year, Indosat issued Rp3 trillion in bonds to cover its expenses and obtained Rp4 trillion in bank loans.

Indofood to Spend \$933m to Acquire Lonsum

Food giant PT Indofood Sukses Makmur will spend Rp8.4 trillion (\$933 million) to acquire about a third of PT London Sumatra Plantations (Lonsum), Antara reported.

Indofood subsidiaries PT Salim Ivomas Pratama and Indofood Agri Resources Ltd will pay Rp5.7 trillion for a 36.6% stake from First Durango Singapore and Ashmore Funds.

Unilever Indonesia to Buy Buavita from Ultra

Unilever PLC said Unilever Indonesia has entered into a conditional agreement to buy the Buavita brand of fruit-based vitality drinks from Ultra.

Under the terms of the agreement, Unilever Indonesia will acquire the brand and related goodwill and Ultra will continue to produce juices for Unilever under a long-term supply agreement, Thomson Financial reported on Tuesday (25/9/07). Financial details of the deal were not disclosed.

"The acquisition is fully in line with our priority of building on our strengths in developing and emerging markets," Unilever's president for Asia, Africa Harish Manwani said in a statement.

BANKS

BI Offers Non-Tax Incentives to Encourage Mergers

Bank Indonesia (BI) issued a new stipulation Wednesday (26/9/07) providing non-tax incentives to encourage banks to merge or consolidate.

One such incentive is the reduction of a bank's mandatory minimum reserve (GWM) placed with the central bank, Thomson Financial reported.

Under the new stipulation, the newly merged banks' mandatory minimum reserve placed with the central bank will be reduced by 1% for a period of one year.

In August 2005, the central bank raised banks' minimum reserve requirement by between 1 and 5 percentage points. The previous level was 8%. The size of the hike depended on the bank's loan-to-deposit ratio (LDR). Banks with the lowest LDRs got the biggest increase in the minimum reserve requirement.

BI tightened the reserve requirement at that time to support the rupiah.

Since then, banks have been calling on the central bank to relax the minimum reserve requirement. With a lower GWM, banks said they will have more funds to allocate for loans or to place in higher-yielding instruments, thereby helping boost their income.

BI said it will also ease requirements for merged banks that are seeking to upgrade their status to a foreign exchange bank. Medium to large banks must seek a license from BI to conduct foreign exchange transactions upon meeting certain requirements set by the central bank.

BI said it will also relax the requirements for merged banks planning to open new branches, but gave no further details.

Bank Syariah Mandiri Expects \$12.3m Net Profit

Bank Syariah Mandiri (BSM) expects its net profit this year to reach Rp113 billion (\$12.3 million), revising its earlier target of only Rp75 billion.

"Up to August this year, our net profit has reached Rp78 billion while there are still five months left to meet the target," its president director Yuslam Fauzi said on Wednesday (26/9/07), according to Antara.

Fauzi said the target would be met with support from the distribution of financing that is expected to reach Rp10.5 trillion by the end of the year. "Financing has already reached Rp9.2 trillion," he said.

He said the financing target is supported by non-corporate financing, namely financing below Rp10 billion as well as corporate financing above Rp10 billion.

He hoped that by the end of the year, there would be additional capital from shareholders reaching up to Rp100 billion. "It is hoped the addition would increase the capital adequacy ratio and strengthen the distribution of financing to reach up to Rp1 trillion," he said.

BSM will maintain the CAR at 12% while its present ratio is 14.1%. "With the CAR in its present position, there is still room for expansion which will be wider following the Rp100 billion addition," he said.

BRI Disburses \$1.55b in Corporate Credits

State-owned Bank Rakyat Indonesia (BRI) disbursed Rp14 trillion (\$1.55 billion) in new corporate credits in the first nine months of the year.

The largest portion of credits went to the plantation sector, amounting to Rp7 trillion (\$763 million), bank director Sudaryanto Sudargo was quoted as saying by Antara in a report on Tuesday (25/9/07).

The country's third largest lender is set to disburse Rp18.8 trillion in new corporate credits this year.

The bank also finances infrastructure projects, such as toll roads, but focuses more on the plantation sector, such as oil palm, cacao, coffee and clove plantations, Sudargo said.

POWER

PLN Awards Six Transmission Contracts

State utility PT PLN awarded six contracts worth Rp914 billion to build transmission lines and reduce blackouts in the country.

Contractors will connect five planned coal-fired power plants that are scheduled to come into operation in 2009, PLN said in an e-mailed statement to Bloomberg News on Thursday (27/9/07). The utility will finance the projects with its own funds, it said.

PLN needs to spend Rp18 trillion expanding its transmission network to meet a state directive for power producers to add 20,000 MW of coal and gas-fired electricity generation capacity by 2010.

A group led by PT Meta Epsi will build a transmission line to connect Indramayu power plant in West Java under a contract worth Rp248 billion.

PT Centra Multielektrindo will construct a 150-kilovolt line to strengthen the electricity connection between Java and neighboring Madura islands. The contract is valued at Rp210 billion, PLN said.

The transmission lines will be completed in between 16 and 20 months, the utility said.

Indonesia needs to spend about \$27 billion on new plants and power lines by 2012 to meet demand, according to the World Bank.

Govt. Guarantees Crash Program Loans

The government has announced a full guarantee for loans provided by the creditors of state-owned electricity company PLN to finance its crash program in electricity sector, the finance ministry said.

The presidential regulation issued on September 19, 2007 is expected to speed up the implementation of the program under which PLN is to build coal fired power plants with a total capacity of 10,000 MW to be completed before 2010.

Based on the regulation, the government will take over the responsibility of repaying the loans if PLN fails to meet its debt obligations, the ministry's head of the fiscal policy agency, Anggito Abimanyu, told Antara news agency.

OIL & GAS

Govt. to Review PSCs, Threatens to Terminate Some

The government will extend the term of some of the 15 production sharing contracts facing expiry after 10 years if they do not submit a development plan by the end of 2007, Oil and Gas Director General at the Energy and Mines Ministry, Luluk Sumiarso, said Wednesday (26/9/07).

"Some of the 15 blocks will be extended, while some will be terminated. It will be decided on a case-by-case basis," *Platts Commodity News* quoted as saying.

Indonesia gives oil and gas companies a 10-year period to explore areas. But if they fail to submit a development plan by the end of that period, the contract can be terminated.

Among the 15 companies in danger of having their contracts terminated are France's Total E&P in offshore East Kalimantan's Saliki block, ConocoPhillips' i Warim blockn Papua, Korea National Oil Corp. in offshore South Kalimantan's Wokam block, Australia's Santos in offshore East Java's Madura block, Malaysia's Petronas in Sumatra's Tanjung Jabung block and Pearl Oil in offshore southern Kalimantan's Sebuku block.

"We will extend the exploration contracts for contractors who could not continue their activities because of problems over forest areas or lack of rigs. But we will terminate the contracts of companies that have done nothing. We could offer the sites to other parties," Luluk said.

Oil Stake for Domestic Companies Mooted

Indonesia may require oil and gas explorers to set aside 10% of new developments to domestic companies in addition to the 10% given to provincial governments.

The government is considering applying the ruling to new contracts as well as extensions to existing projects, Bloomberg quoted Kardaya Warnika, chairman of oil and gas regulator BP Migas, as telling reporters on Monday (24/9/07).

Under current regulations, contractors must offer 10% of interest to companies owned by local governments after the regulator approves the first development plan.

The energy ministry has to approve the new proposal before it comes into effect, Warnika said.

Indonesia will offer at least 25 areas this year, R. Priyono, upstream director at the energy ministry, said on September 21. Exxon, the world's biggest publicly traded oil company, Chevron and Royal Dutch Shell Plc may bid, he said.

Total SA, Europe's third-largest oil company, is seeking a 15-year extension to its drilling contract in the Mahakam Delta that will expire in 2017, Philippe Armand, president of the company's Indonesian unit, said on March 26. The area in East Kalimantan province, owned jointly by Total and Inpex Holdings Inc., produces about 2.6 billion cubic feet of gas a day.

Elnusa Buys Stake in Ramba Block

Elnusa, a unit of state oil and gas firm PT Pertamina, announced Sunday (23/9/07) that the company and one of its partners had acquired Conocophillips' entire stake in the Ramba block in South Sumatra.

Elnusa has established a joint venture company with Tristar Global of Singapore to acquire the block, in which Elnusa has a 25% participating interest, with Tristar controlling the remainder, Elnusa corporate secretary Haris Syahrudin told *The Jakarta Post*.

The Ramba block was previously 60% owned by ConocoPhillips and 40% by Talisman Energy of Canada.

The Ramba block has seven oil-producing fields. According to data from the Energy and Mineral Resources Ministry, it produced 4,609 barrels of oil per day last year and 33.53 million cubic feet of gas per day.

Until 2005, the operator had spent \$27.2 million on developing the block. It is estimated that it still contains potential reserves of 199.879 million of barrels of oil and 135.2 billion cubic feet of gas.

By acquiring the block, Elnusa now operates two blocks, with the other the Bangkanai Block in East Kalimantan.

Elnusa is currently restructuring its business units as part of its expansion plan. It is also preparing to sell a 20% stake to the public through an initial public offering (IPO) in December, from which the company expects to rake in \$100 million in proceeds.

Last year, Elnusa booked Rp1.87 trillion in revenue, compared with Rp1.27 trillion in 2005. This year, it expects its profit to increase 30% to around Rp100 billion, and for 2008, it hopes to double net profit to Rp200 billion.

Santos Starts 1st Production at Oyong

Santos Ltd says first oil production from the Oyong project has started, with an investment decision for gas production from the operation expected before the end of the year, Australian Associated Press reported on Monday (24/9/07).

The project, which is located offshore East Java, is expected to produce between 8,000 and 10,000 barrels of oil per day. "First oil production from Oyong is an important milestone for Santos as it adds another operated project to our Asian portfolio," Santos managing director John Ellice-Flint said.

Santos said front-end engineering design for development of the Oyong gas reserves was underway with a final investment decision expected before the end of 2007. A sales agreement has been signed with PT Indonesia Power, with gas to be piped to an onshore processing facility adjacent to the Grati power station in East Java.

First gas production is expected in the first half of 2009.

Santos is also believed to still have its eye on the possible joint development of its Wortel gas discovery with the reserves at its nearby Oyong off shore field, *Upstream* reported on Friday.

The Wortel gas field, discovered on the same block last year, could be developed jointly although the partners will hold fire on a decision until they have further appraised this find.

The next appraisal campaign at Wortel, lying just 7 km west of Oyong, is scheduled for the first half of next year.

The Wortel wildcat discovery well flowed at 18.5 million cubic feet per day of gas together with condensate production of between four and five barrels per mcf of gas.

However, the first appraisal well, Wortel-2, sunk within weeks of the discovery, failed to hit significant hydrocarbons.

Pre-drill estimated reserves at Wortel were put at a maximum of 50 million barrels of oil equivalent but the possibility of a tie-in to Oyong could prove a viable development option.

Pipeline Leg Completed End-Oct: PGN

Gas distributor PT Perusahaan Gas Negara (PGN) said Tuesday (25/9/07) the second line of its South Sumatra-West Java (SSWJ) gas pipeline is expected to be completed in late October this year as scheduled, Thomson Financial reported.

The second line of the SSWJ gas pipeline is divided into two sections. The first, which links the South Sumatran coast town of Labuan Maringai and Muara Bekasi in West Java and is 164 km long, was completed in late July this year.

PGN is now working on the second section of the second line, which links Pagardewa and Labuan Maringai in South Sumatra and is 268 km long. "The Pagardewa-Labuan Maringai line is now 93.91% completed and should be ready for gas-in at the end of October," the company said.

In mid March, PGN began flowing gas from Pagardewa in South Sumatra to Cilegon in West Java through the first line of the SSWJ pipeline, with an initial gas distribution volume of 30 million standard cubic feet per day (mmscfd).

The gas volume flowing through the pipeline increased to around 60 mmscfd in the second quarter and has risen further to around 120 mmscfd since end-July.

CNOOC Launches 2nd Phase of Sumatra Gas Project

China National Offshore Oil Corporation (CNOOC) has announced the launch of phase II of its Southeast Sumatra (SES) Gas Project, which has a contracted delivery rate of 2.22 mn cu meters per day, XFN-ASIA reported on Monday (24/9/07).

Facilities for phase II include one production and processing platform, a gas plant, a gas compression processing platform and three sub-sea pipelines, the company said. Phase I was launched last year.

The gas will mainly be supplied to a power plant owned by the Indonesian state utility company, PT Perusahaan Listrik Negara (PLN), CNOOC said.

CNOOC Ltd owns a 65.5% stake in the Southeast Sumatra production sharing contract, and is the operator.

MINING

Govt. Sees Domestic Demand for Coal Rising

The government expects no growth in Indonesia's coal exports from 2010 onwards because producers will have to meet rising domestic demand, an official of the Energy Ministry said Thursday (27/9/07).

"Therefore, we are asking coal companies not to draft new long-term export contracts," Bambang Setiawan, the secretary of the ministry's coal and geothermal directorate-general told Thomson Financial, adding that there is no rigid guidance on the volume of exports, but that it will not be far from the current level of about 150 million tons a year.

Indonesia is the world's biggest exporter of thermal coal. The country's coal output is predicted to rise to 205 million tons this year from 193 million tons last year.

Coal exports are expected to rise to 156 million tons this year from 148 million tons. 'It should not be a problem for coal miners to increase domestic sales because the prices will also be good,' Setiawan said.

He said oil price spikes in recent years meant more companies are now using coal to generate electricity.

Coal used by manufacturers such as cement and textile companies is mostly medium to high quality, of the kind that miners export.

Setiawan said there will be huge demand for coal when new coal-fired power plants belonging to state-owned PT Perusahaan Listrik Negara (PLN) start operating in 2010. The PLN plants will mostly use low-grade coal, which is not good for export because it is more expensive to transport than medium-to-high-quality coal.

Setiawan said the PLN power projects may consume about 60-70 million tons of coal per year.

Separately, a senior trade official said the government was considering asking mining companies to set aside output of lead, iron, bauxite, copper and gold to ensure domestic processors have sufficient supply of the ores.

"There's a need for a regulation aiming not to make business difficult but more to ensure domestic supply," Diah Maulida, Director General for Foreign Trade at the ministry, told reporters in Jakarta on Friday.

Straits Purchases E. Kalimantan Coal Operations

Straits Resources Ltd. has agreed to buy a coal mine that is bigger than its existing operations in the country for a price tag of under \$400 million, a person familiar with the deal told Dow Jones on Friday (28/9/07).

Straits Asia Resources Ltd., the 60.4% owned Singapore-listed subsidiary of Straits Resources, said Friday it entered into the agreement with Vital Century Investment, Pacific Communication Corp. and Mitsui Matsushima International Pty. Ltd. to buy a thermal coal mining business in East Kalimantan.

The subsidiary didn't give details of the cost of the purchase or the production capacity of the mines it bought.

Straits Resources had previously indicated it planned to spend about \$400 million over the next few years on coal acquisitions, and a person familiar with the deal said the East Kalimantan purchase was close to, but less than, that amount.

Straits' flagship Sebuku coal mine in Indonesia currently produces about 3 million metric tons of coal a year and is set to ramp up to 5 million tons a year in 2008.

The source said the latest acquisition in East Kalimantan has greater output than Sebuku. "The coal quality is similar to Sebuku, and our business will benefit from diversification, as well as the opportunity to more than double our coal production, and significantly expand our resource base at a time when global thermal coal supply and demand conditions are extremely favorable to coal producers," Straits Asia Resources Chief Executive Richard Ong said in a statement.

Straits' earnings have been affected by heavy rains at Sebuku that forced it to declare force majeure on sales contracts and analysts said the purchase of another large coal mine would lessen the impact of similar incidents in the future.

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