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REPUBLIC OF INDONESIA

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Trade and Investment News¹, 8 October 2007

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¹ *This Trade and Investment News is a publication of the Coordinating Ministry for Economic Affairs of the Republic of Indonesia. Readers are welcomed to forward it in its original form but no reproduction is allowed without permission*

POLITICS

No Politics, President Tells Military

President Susilo Bambang Yudhoyono on Friday (5/10/07) warned the Armed Forces (TNI) against returning to politics, Reuters reported.

Since Suharto's downfall in 1998, the military's political power has been clipped and it has come under pressure to abandon its lucrative business ventures.

"The TNI needs to maintain its consistency in staying out of politics and should not try to find a new way to get involved in politics," Yudhoyono said in a speech marking Armed Forces Day at military headquarters.

Yudhoyono, a former general, urged the military to continue the reforms that began in 1998 so that it could become a "professional and capable" institution.

"Next year, please report to the people of Indonesia on what the TNI has achieved in the first 10 years of internal reform," he said.

In 2004, Indonesia passed a law requiring the government to take over all military businesses by 2009 but implementing regulations have yet to be issued.

Wirayuda Slams Myanmar

Indonesia is not satisfied with Myanmar's explanation that the mass protests led by Buddhist monks in Yangon that have claimed at least 13 lives were triggered by a fuel oil price hike, Foreign Minister Hassan Wirayuda told reporters at the United Nations in New York, Antara reported.

In Indonesia's view, the demonstrations led by Buddhist monks were not caused by a fuel oil price hike but by the increasing revelation of a fundamental problem, namely a stunted democratization process.

"If the reason given is the fuel oil price hike, I will say I do not believe it. This involves something very fundamental, namely a flawed democratization process," he said.

"If Myanmar had given a satisfactory explanation, ASEAN foreign ministers would have commended Myanmar," Wirayuda said on the sidelines of bilateral meetings with his ASEAN partners on September 28.

Go-Slow Sought On Iran

Indonesia has called on the United Nations Security Council (UNSC) not to rush into putting on the table another resolution on the Iranian nuclear dispute before receiving the latest report from the International Atomic Energy Agency (IAEA).

Indonesia, one of the 15 non-permanent members of the council, will take over the presidency in November when a report from the chief UN nuclear official is expected to be submitted.

Foreign Minister Hassan Wirayuda said the council will not hold a new debate on Iran's nuclear program, which the West suspects is aimed at developing nuclear arms, without the latest reports from the UN nuclear body, Antara reported.

"We're appreciative that Iran is showing a cooperative attitude in communicating with the IAEA, and we'd like to encourage closer work between them," he said at UN headquarters in New York.

He said Iran, which insists its nuclear program is for civilian use, should maximize current efforts with the IAEA to find a peaceful solution, including by looking at how the North Korean nuclear dispute was settled.

A joint statement released on September 28 by the foreign ministers of Russia, France, Britain, China, the United States and Germany said they would finalize a third resolution and bring it to a vote unless reports in November from the IAEA and the European Union show "positive outcome of their efforts."

The US, Britain and France have been pushing for new sanctions to pressure Iran to halt its uranium enrichment, but China and Russia want to give more time for Tehran to talk to UN inspectors.

Shootout Suspects Face Death

Alleged Jemaah Islamiyah (JI) military wing members nabbed after a shoot-out with police six months ago could face the death penalty, the Central Jakarta District Court heard on Monday (10/2/07).

Six alleged terrorists faced the court for the first time, accused of being accomplices of senior JI military commander Abu Dujana, Australian Associated Press reported.

Prosecutors, in an indictment read to the hearings, alleged the men helped Dujana move explosives and weapons in Yogyakarta and Surabaya, East Java, to their peers in the violence-torn Central Sulawesi district of Poso.

The six on trial are Ahmad Syahrul Usman, aka Faisal, Mahfudz Qomari, aka Ayyasi, Sikas, Amir Ahmadi, Sarwo Edi Nugroho and Maulana Yusuf Wibisono, aka Kholis.

"Defendant Sarwo Edi Nugroho and his associates made an evil conspiracy to commit a terrorism act ... violating the law by transferring weapons, ammunition or explosives for terrorism crime," said prosecutor Djamin Susanto.

They could potentially face the death penalty if prosecutors can prove charges of terrorism, including giving assistance to Abu Dujana by failing to report Dujana to the police.

Maulana Yusuf Wibisono and Ahmad Syahrul Usman allegedly helped Dujana by sending four boxes of explosives to Muslims in Poso from Surabaya, Susanto said.

In Yogyakarta, Sarwo Edi Nugroho, Mahfudz Qomari, Sikas, and Amir Ahmadi had conspired to transfer the explosives stored in the bunker, on Dujana's orders, but they were caught before they were able to do so.

Militant Sentenced to 15 Years

A militant was sentenced to 15 years in prison on Thursday (4/10/07) for opening fire on a boat in which two Christians were wounded in eastern Indonesia in 2005, The Associated Press reported.

Judges said Sulthon Qolbi was a member of Kompak, a militant group that took part in fighting between Christians and Muslims in Maluku chain between 1999 and 2002. The group kept up occasional attacks against Christian targets after the war ended.

Qolbi was found guilty of violating the country's anti-terror laws for taking part in the attack on the passenger boat off Buru Island in February 2005. He and several other militants opened fire on the boat with automatic weapons.

Qolbi is the seventh in a group of militants convicted in a series of attacks against Christians that claimed more than a dozen lives between 2004 and 2005.

Straits Security: No Third Parties

Indonesia has renewed its rejection of any help from foreign navies to help safeguard the Malacca Strait, *The Jakarta Post* reported on Wednesday (3/10/07).

"We have established cooperation on joint patrol (of the strait) with Malaysia and Singapore," Armed Forces (TNI) Commander Air Chief Marshal Djoko Suyanto told detik.com. "We don't want any third party's involvement in the routine."

He said any involvement by other countries should be in the form of providing technical assistance and equipment.

The TNI chief said the Japanese government will supply one or more patrol boats as part of its commitment to assist the three neighboring countries. The boats are expected to arrive in December.

REGIONS

Bird Flu Vaccine Ready to Use

Indonesia is ready to use its own anti-bird flu vaccine for humans, after the country completed clinical tests, Health Minister Siti Fadilah Supari said on Wednesday (3/10/07).

The minister said that the clinical test of the vaccine was already complete in September. "The vaccines are valid, (they) can be used now," she told Xinhua.

She said calculation was still needed to determine in detail how to use over 2 million doses of vaccine produced in cooperation with the US-based drug maker Baxter. Some parameters and rules for the application of the vaccine would be made soon, said Supari. "We still need some approaches. We need to make more calculations."

The health authorities would observe and watch closely which area was proper to be prioritized for using the vaccine, said Supari.

Hundreds Start Evacuation from Mt. Kelud

Hundreds of people have started to move from the danger zone on the slopes of Mount Kelud in a densely populated area of East Java as the volcano threatens to erupt, the Health Ministry said Thursday (4/6/07).

Rustam Pakaya, head of the ministry's crisis center, said the evacuees were those in the category of high risk persons, such as pregnant women, babies, children, old people and disabled people. "Hundreds of people have begun to be evacuated. We give priority to secure the high risk population," Pakaya told Xinhua.

The evacuees would be sheltered in a secure place at a radius of more than 11 km from the mountain, he said. "There is a possibility that the volcano will erupt," he said.

Based on its short eruption cycle of once in 17 years, the volcano, which last erupted in 1990 and now at the second-highest alert status, could be ready to blow again this year, said the head of surveillance at the Volcanology and Mitigation Center, Yan Saut Simatupang.

The alert status was raised at the end of last month because of increases in temperature and the presence of carbon dioxide and sulfur in the crater lake.

Residents have been told to stay at least 5 km from the crater. Pakaya said that thousands of masks had been distributed and air quality checks were being regularly conducted.

Thousands are at risk if the volcano erupts. The regencies of Kediri and Blitar are both heavily populated. Preparations for supply of medical facilities and personnel had been made in the two regions, said Pakaya. The military conducted simulated evacuation exercises last week.

ECONOMY

Investment Continues in Range of Industries

More investments were announced last week, headed by a \$500 million plan for a Chinese-backed steel mill in Kalimantan.

China's Nanjing Iron Steel Corp will build the steel factory in South Kalimantan with capacity to produce up to 1.5 million tons of billet and slab, Reuters reported.

Other announcements concerned the currently popular sugar industry and the plantation sector, while Industrial and Commercial Bank of China (ICBC) said it has concluded a deal to acquire 90% of Bank Halim Indonesia for an undisclosed price.

Domestic investor PT Silakencana Tirtalestari will buy another 50% of the long-stalled PT Tuban Petrochemical Industries project from state asset management company PT PPA for Rp3.2 trillion, according to *Bisnis Indonesia*.

It cited PPA president Mohammad Syahrial as saying that the deal will raise the company's stake in Tuban Petrochemical to 80%.

Elsewhere, both the country's finance minister and analysts shrugged off September inflation figures that saw a month-on-month rise in the consumer price index of 0.8% for a yearly figure of 6.95%.

Finance Minister Sri Mulyani Indrawati said Monday (1/10/07) that the figure is still within the government's target range.

She said she expects inflation to remain within the band of between 5% and 7% at the end of the year.

Citigroup economist Anton Gunawan said the reading was in line with expectations, Thomson Financial reported.

The analyst is expecting inflation to ease this month and to provide enough room for the central bank to resume its rate-easing campaign in November.

Exports dropped 2.0% on month to \$9.61 billion in August, while imports rose 9.4% to \$6.85 billion, the Central Bureau of Statistics (BPS) said, with the trade surplus falling to \$2.76 billion.

There was good news for the tourism industry, with arrivals in Bali hitting a record in August at 173,641 persons, 39% up on the same month last year, according to BPS.

The stock market continued to boom. On Friday, the Jakarta Stock Exchange composite index put on an extra 1.1% to finish the week at a new all-time high of 2,500.58. The index put on 6% over the full week.

"We had predicted the main index would break this level at the end of the year, but the influx of foreign capital into local equities has driven the index to hit this historic level earlier than expected," BNI Securities analyst Norico Gaman added, according to Agence France-Presse.

The rupiah was trading at 9,085/9,095 to the US dollar at close of business on Friday.

Indicators:

	July	August	Jan-Aug 07/ Jan-Aug 06	Trade surplus First semester
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Total exports	\$9.81 billion	\$9.61 billion	13.35%	\$19.99 billion
Non-oil & gas exports	\$8.02 billion	\$7.75 billion	19%	\$19.61 billion
	August (y-o-y)	August (m-o-m)	September (y-o-y)	September (m-o-m)
Inflation	6.51%	0.75%	6.95%	0.8%
	Full year 2005	Full year 2006	1Q 2007	1H 2007
GDP growth	5.60%	5.5%	5.97%	6.1%
Tourist arrivals	July	August	Jan-Aug 07/ Jan-Aug 06	
	423,500	405,600	13.47%	

Source: Central Statistics Agency

BUSINESS BRIEFS

MACROECONOMY

September CPI Moves Up on Holiday Spending

The consumer price index rose at a slightly faster than expected pace in September due to higher food prices.

The acceleration was due mostly to temporary factors associated with the fasting month of Ramadhan, so the central bank might be able resume its easing cycle before the end of the year, economists said, according to Dow Jones Newswires.

Rusman Heriawan, chairman of the Central Bureau of Statistics (BPS), said Monday (1/10/07) that the CPI rose 6.95% on year and 0.8% on month in September, accelerating from rates in August of 6.51% on year and 0.75% on month.

Core inflation -- which excludes prices that are controlled by the government such as energy and food -- was 6.03% on year, an acceleration from 5.66% in August. Basic food prices rose 1.81% on month due to the Ramadhan fasting month.

Economist David Cohen of Action Economics said that since most of September's inflationary pressures were generated by higher food costs, those pressures could ease after Ramadhan ends and the central bank may cut rates further before the end of the year.

Coordinating Minister for Economic Affairs Boediono said Wednesday (3/10/07) BI still has room to cut its benchmark interest rate one more time this year because the year-end inflation target is still reachable despite the recent rise in prices, Thomson Financial reported.

The statistics bureau also said August exports rose 7.86% from a year earlier to \$9.61 billion, after a 10.46% rise in July, Reuters reported.

Imports rose 20.18% from a year earlier to \$6.85 billion. That compared with July's annual growth of 15.39% and was above a forecast for a 14.55% increase.

Investors Swap Bonds for Longer Maturities

The Finance Department said Tuesday (2/10/07) it accepted only Rp799 billion (\$88 million) in bids from investors who wanted to swap short-dated bonds for debt maturing in 2023, representing just more than half the bids submitted.

The government has been trying to increase its debt maturity profile by offering investors the opportunity to exchange short-dated bonds for longer-dated paper so that it doesn't have a huge refinancing need in the next one to five years.

Investors submitted a total of Rp1.46 trillion in bids at the auction, the department's Treasury Director General Rahmat Waluyanto said, according to Reuters.

The department only accepted Rp799 billion of bids, selling its 16-year bonds coded FR0046, which have a coupon of 9.5% and were priced to yield 9.79%.

So far this year, the department has exchanged a total of Rp15.2 trillion of short-dated government bonds in longer-dated paper.

On Wednesday, the central bank sold Rp68.1 trillion (\$7.5 billion) of 28-day bills at 8.25%.

Forex Reserves \$52.88b

Bank Indonesia (BI) said Tuesday (2/10/07) its foreign exchange reserves stood at \$52.88 billion on September 24, up from \$51.43 billion at the end of August.

The central bank has projected that its forex reserves will rise to \$56.2 billion by the end of the year from \$42.59 billion at the end of 2006, Thomson Financial reported.

BI said that base money increased to Rp300.30 trillion on September 24 from Rp298.04 trillion at the end of August, driven up by money in circulation.

It said money in circulation was Rp179.29 trillion on September 24, up from Rp177.11 trillion.

The central bank said minimum reserves placed by banks were flat at Rp120.74 trillion, against Rp120.67 trillion.

INVESTMENT

Govt. Seeks to Shorten Time for Starting Business

The government is determined to cut the length of starting business in the country to 25 days in attempts to improve the business climate, an official said Wednesday (3/10/07).

"We have targeted that starting a new business in Indonesia will take only 25 days for the sake of better investment climate," Jannes Hutagalung, an advisor to the coordinating minister for economic affairs, was quoted by news website detik.com as saying.

"We will spread the newly adopted regulations to all communities so that they have knowledge about them and improve transparency and governance."

The move aims to make businesses in Indonesia more efficient, he said.

China Pushes Ahead with Fisheries JV

Maritime and Fisheries Minister Freddy Numberi said Indonesia and China will go ahead with plans to establish a fishery joint venture.

The joint venture between a state company and a Chinese partner will invest Rp512.5 billion to build a fish landing terminal and processing plants in the country.

Preparations are underway to build the terminal and the factory, Numberi said.

Chinese Firm to Build Steel Factory

China's Nanjing Iron Steel Corp will spend up to \$500 million to build a steel factory in South Kalimantan, a senior government official said on Friday, Reuters reported.

The steel factory will have the capacity to produce up to 1.5 million tons of billet and slab -- semi-finished materials used in the production of hot-rolled coils, which in turn are used in construction and ship building.

The firm plans to tie up with a local hot-rolled coils manufacturer, PT Gunung Garuda Group.

"The management of the two companies informed me on their plan early this month. They will use coal and iron ore from Kalimantan," said Anshari Bukhari, Director General for Metal, Machinery and Textiles at the Industry Ministry.

If iron ore supplies cannot meet the demand, they will import iron ore from Australia, he added.

Indonesia produces around 2 million tons of iron ore a year, but 1.8 million tons was exported to China in 2006.

Qatar-Based Telco Sees High Growth Prospects

Qatar Telecom (Qtel), one of the Gulf region's largest telecommunications operators, sees Indonesia as among three potentially high growth markets in the Asia Pacific for its telecommunications services.

"As the world's fourth most populous nation, Indonesia is an important market for Qtel," the firm's chief executive officer Nasser Marafih said in a statement made available Monday (1/10/07).

"We see our investment in Indosat as strategic to our overall growth plan and for the long term. Together with our partner in Asia Mobile Holdings (AMH), we are committed to helping Indosat achieve enduring success in Indonesia."

Qtel owns a 25% stake in AMH (the remainder is controlled by Singapore Technologies Telemedia), giving it an immediate foothold in two key Southeast Asian markets, Singapore and Indonesia, through StarHub and Indosat, respectively.

AMH owns about 40% of Indosat and some 49% of StarHub.

"Our basic strategy for the future is all about growth. We've got our domestic market saturated, and so now it's all about what do we do next," Qtel business development director Guy Norman was quoted as saying by *The Jakarta Post*.

He said that Indonesia, in this respect, is among the most attractive growth markets in Asia-Pacific.

"Indonesia is our star market, absolutely, if we look at Asia. Indonesia, India and China are the huge growth markets in the whole region for the whole world, but China is very difficult to get into, and India, despite its opportunities, is still rather difficult to penetrate," Norman said.

"Indonesia, on the other hand, is all about growth and expansion; that's really the attraction. If you look at the penetration rate of mobile phones and the Internet here today, there is basically a lot of room for growth," he added.

Qtel is a Qatar-based telecommunications firm that operates in 15 countries in the Middle East and Asia Pacific, covering a total population base of 527 million. It is 55% owned by the Qatar government.

Olam Buys Sugar Refinery for \$12.6m

Singapore agricultural commodities supplier Olam International said Tuesday (2/10/07) it is buying PT Dharmapala Usaha Sukses (DUS), a sugar refinery in Indonesia, for a total of \$12.6 million.

Of the investment, \$5 million will be paid to DUS shareholders and the balance of \$7.6 million will be used to pay off the company's outstanding debt obligations to Bank Danamon, it said, according to Thomson Financial.

Olam said it will further invest an estimated \$12 million to upgrade and raise the refinery's production capacity to 650 tons per day from the current effective capacity of 200 tons per day.

The investment will also enable Olam to install a new boiler so that the refinery can switch to coal, a lower cost feedstock, it said.

"We have found PT DUS to be an opportunity for us to participate in the growing sugar refining sector in Indonesia. We believe our entry into the country's sugar refining sector will add much more value to the local industries that consume sugar and we can scale up PT DUS operations quickly given our growing sugar operations internationally," Olam group managing director and CEO Sunny Verghese said

Silakencana to Buy More Tuban Petrochemical - Report

PT Silakencana Tirtalestari will buy another 50% of PT Tuban Petrochemical Industries from state asset management company PT PPA for Rp3.2 trillion, *Bisnis Indonesia* reported, citing PPA president Mohammad Syahrial.

Businessman Honggo Wendratno owns Silakencana, and the purchase will raise the company's stake in Tuban Petrochemical to 80%.

PPA currently owns 70% of Tuban Petrochemical. Syahrial said the finance minister has endorsed Silakencana's purchase of another 50% of Tuban Petrochemical, the newspaper said. He said he expects the transaction to be completed early next year.

TDM to Invest in Oil Palm Joint Venture

Malaysian plantations company TDM Bhd said Monday (1/10/07) it has agreed to form a joint venture to develop oil palm plantations in Indonesia and expects to invest about RM118 million (\$34.6 million), Dow Jones Newswires reported.

In a filing with the stock exchange, TDM said it has entered into an agreement with Indonesian citizen H Rahman to form PT Rafi Kamajaya Abadi to develop oil palm estates on a 10,000-hectare site in Kalimantan.

TDM said it will own 80% of the joint venture, with its Indonesian partner holding the remaining 20%.

STATE CONCERNS

January-August Tourist Arrivals 13.5% On Year

The number of foreign tourist arrivals to Indonesia rose 13.5% in the January-August period to 2.97 million from the same period a year earlier, the Central Bureau of Statistics (BPS) said Monday (1/10/07), according to Dow Jones Newswires.

The number of foreign tourist arrivals to Bali rose 35% on year in the period to 1.13 million, the bureau said, adding that the average foreign tourist stay in Bali is 3.78 days, the longest among all the tourist destinations in the country.

The country has been struggling to revive its tourism industry after several terrorist attacks in the past few years, including two in Bali.

Three Airlines' Safety Ratings Upgraded - Report

The government has upgraded three local airlines to the highest tier of safety compliance, *Bisnis Indonesia* reported, quoting the country's director general of air transportation.

The three carriers are PT Mandala Airlines, PT Premi Air and PT Airfast Indonesia, Budhi Muliawan Suyitno said, according to the report.

"The three airlines have been upgraded to the first category, joining Garuda Indonesia," Suyitno said.

Tobacco Plantations to be Phased Out

The government plans to downsize the country's 238,362 hectares of tobacco plantations due to discouraging prospects, an official said.

The plantation areas will be reduced systematically to prevent a drastic fall in production, Director General for Plantations Achmad Manggabarani said, according to Antara.

The growing awareness of the dangers of smoking have hurt the prospects of tobacco growers, Manggabarani said.

He said the government will not force farmers to stop growing tobacco but they will be encouraged to change their crop to ones more competitive in the market, such as cotton, sugarcane or clove.

Indonesia supplies 40% of the world's tobacco and the country will remain a potential supplier of tobacco in the next several years despite the plan to reduce the plantations, he said.

Govt. to Increase Arabica Coffee Production

The government has launched a campaign to boost productivity in Arabica coffee plantations to up to 800 kg per hectare from the current 560 kg per hectare, an official said.

"Over the next two to three years, we will focus on the improvement of Arabica coffee production," Director General of Plantations Achmad Manggabarani was quoted as saying by Antara on Wednesday (3/10/07).

Indonesia has 1.17 million hectares of Robusta coffee plantation, which have an annual yield of 596,000 tons, compared to only 101,867 hectares of Arabica plantation, which have an estimated output of 61,251 tons a year.

The major Arabica plantations are in Aceh, North Sumatra, South Sulawesi and Bali, he said.

Indonesia's coffee export reached 139,724 tons worth \$187.91 million in 2006, down from 445,829 tons worth \$503.83 million a year earlier.

SOEs

Jasa Marga IPO Slated for November

Toll road firm PT Jasa Marga plans to sell a stake of up to 30% and list on the Jakarta bourse in November as it seeks to repay debt and fund new road construction, its president director said on Tuesday (2/10/07).

Frans Sunito declined to reveal the size of the IPO but told Reuters the state-owned company would hold a public presentation on October 8 to gauge investor interest and determine exactly how much it would sell.

In March, he said the company planned to raise Rp3 trillion (\$330.4 million) from the offering.

"All the proceeds will be used to strengthen our capital and repay debts. We will continue to develop new toll roads and in the coming three to five years, we need Rp12 trillion for construction," Sunito told Reuters.

The firm, which controls about 75% of the country's toll roads, plans to build three new toll road projects in Java.

Telkom's 9-Month Cell Subscribers Up 16%

State telecommunications company PT Telkom said Monday (1/10/07) its cellular subscribers in the first nine months of the year rose 16% on year to 44 million from 38 million a year earlier.

"We will maintain our national market share at 50%," Telkom president director Rinaldi Firmansyah was quoted as saying by Dow Jones Newswires. He did not elaborate.

Analysts attributed the increase in Telkom's cellular subscribers to an improvement in consumer spending power.

Semen Gresik Confirms Dollar Bond Plan

The chairman of the country's largest cement maker, PT Semen Gresik confirmed on Monday (1/10/07) the firm's plan to issue dollar-denominated bonds, without elaborating the time or the size.

A source familiar with the deal has said the state-owned company plans to raise \$500 million from the issue. JPMorgan had been appointed as advisor for the plan.

"We can confirm we are planning to issue dollar-denominated bonds. We will review the market condition to determine the time and the size," Rizal Ramli was quoted as saying by Reuters. "We hope before the end of the year we can complete the preparation process."

Semen Gresik plans to start building a new cement factory and power plants, costing up to \$1.5 billion, next year as it moves to crank up capacity by about 40% by 2013 to 22.9 million tons. Last year it had around 16 million tons.

Gresik estimates the country's domestic cement consumption will rise 6% to 7% in 2008, higher than a 5% forecast by Indonesia's Cement Association, as the sector gradually recovers from a slowdown last year.

PRIVATE SECTOR

Morgan Stanley 'Bullish' on Auto Outlook

Morgan Stanley said Thursday (4/10/07) it has a "bullish" long-term outlook on the Indonesian automotive industry, which it said is poised to benefit from a sizeable domestic market, low penetration rates and the country's attractiveness as a regional production base.

Other supporting factors include the return of political stability and a gradual acceleration of economic growth, which the brokerage said should strengthen consumer purchasing power and consumer confidence.

"We forecast domestic automobile and motorcycle sales volume compounded annual growth rates of 13% and 10% for the next 15 years, respectively, versus 4.5% and 7% in the previous 10 years," it was quoted as saying by Thomson Financial.

The country's automobile and motorcycle numbers stood at 6.8 million and 19.8 million units at the end of 2006, making the country the third largest automobile market and second largest motorcycle market in the ASEAN region.

However, Indonesia remains one of the least-penetrated automotive markets in the region. In 2006, Indonesia's automobile and motorcycle penetration rates were just 3% and 8.7%, against 15.4% and 34% in Thailand and 28.3% and 25% in Malaysia.

"These market conditions present sound long-term prospects for the Indonesian automotive industry in our view," Morgan Stanley said.

Automotive Sales Up 20% on Year

Around 41,000 cars were sold in Indonesia in September, 20% more than a year before, Indonesian Automotive Industries Association (Gaikindo) chairman Bambang Trisulo said Friday, Thomson Financial reported.

Preliminary data showed that in the first nine months of the year, car sales reached about 318,000 units, he said.

"We hope we can sell around 100,000 more in the next three months, so full-year sales may hit 410,000-420,000," Trisulo told Thomson Financial.

He said car sales are expected to drop to around 30,000 in October because of the Idul Fitri holidays before picking up again in November.

Meanwhile PT Toyota Astra Motor said vehicle sales last month increased 2.4% from a year earlier as declining interest rates raised demand.

Meanwhile, sales of Honda motorcycles shot up 27.83% to 239,600 units in September over the previous month, Antara reported on Thursday.

The sales in September were the highest in a month so far this year, marketing director of PT Astra Honda Motor Johannes Loman said, attributing the growth to strong demand for new products Revo, Fit X and Supra 125 cc.

Indofood Hoping for 20% Hike in Sales

Consolidated net sales of food giant Indofood Sukses Makmur are predicted to rise 20% to Rp26.32 trillion (\$2.92 billion) this year from Rp21.94 trillion last year.

The acquisition of oil palm plantation company PT PP London Sumatra Indonesia (Lonsum) is expected to push up sales, Indofood vice president Franciscus Welirang was quoted as saying by Antara.

Lonsum could supply Indofood with basic material in the form of crude palm oil (CPO) to feed its cooking oil factories, Welirang said.

Basic materials have accounted for 90% of the operating cost of the company with labor, production, marketing and fuel costs accounting for 10%, he said.

Semen Bosowa Looks to IPO – Report

PT Semen Bosowa, the second largest cement maker in eastern Indonesia after PT Semen Tonasa, plans to raise Rp600 billion via an initial public offering early next year, *Investor Daily* reported, citing company vice president Erwin Aksa.

Aksa said proceeds from the IPO will be used to expand its business, including building a new cement plant.

The company currently has a plant in South Sulawesi which produces 1.8 million tons of cement per year.

BANKS

China's ICBC Concludes Acquisition of Bank Halim

The Industrial and Commercial Bank of China (ICBC) has concluded a deal to acquire 90% of Bank Halim Indonesia.

The final deal was signed recently after a sales and purchase agreement was reached on December 30 last year, Bank Halim president Jeff SV Eman said, according to an Antara report on Monday (1/10/07).

Eman said Bank Halim is designed to focus on financing export and imports between Indonesia and China.

Bank Halim was 84% owned by PT Intidana Wijaya and 15% by tycoon Rachman Halim before the take over.

Eman refused to state the price of the acquisition of the bank, which by June had Rp470.43 billion (\$51 million) worth of assets, paid-up capital of Rp109.86 billion and a capital adequacy ratio of 77%.

Bank Multicor, Bank Windu to Merge

Bank Multicor and Bank Windu Kentjana said Wednesday (3/10/07) they have agreed to merge to improve competitiveness.

At the end of July, Bank Multicor had assets of Rp945.71 billion and capital of Rp211.11 billion while Bank Windu had assets of Rp573.74 billion and capital of Rp41.93 billion, reported Thomson Financial.

After the merger, the new entity will have assets of Rp1.52 trillion, with a tier-one capital base of Rp253.03 billion, the banks said in a joint statement.

"The merger is a strategic decision by both banks to improve their competitiveness in the national banking industry," they said, adding that the merger is also a response to Bank Indonesia's consolidation program.

Three businessmen own most of Bank Multicor. Suganda Setiadi Kurnia holds 33.06%, Syamsuar Halim 27.15% and Johnny Wiraatmadja 16.53%. PT BCA Finance has 5.91% and the investing public 17.35%.

Bank Windu is 100% owned by PT Mitra Wadah Kencana.

Bank Mandiri Predicts Net Profit of \$444m

The net profit of state-owned Bank Mandiri is predicted to reach Rp4 trillion (\$444 million) this year, up from Rp2.42 trillion last year.

The success of the bank's handling of non-performing loans will contribute to the improvement of its performance, sources at the country's largest lender said, according to Antara.

Finance director Pahala Mansyur said that in the first quarter of this year, the bank received additional earnings of Rp475 billion in non-recurring income from arrears in loan interest.

Banking analyst Mirza Adityaswara predicted the bank would get a higher net profit of Rp4.4 trillion this year.

Banks will enjoy a higher operating profit this year because of the decline in Bank Indonesia's benchmark interest rate, Adityaswara said.

POWER

Inco to Resume Hydroelectric Project

The Indonesian unit of Canada's Inco Ltd will resume construction of a hydroelectric power plant, suspended more than a year ago, following the issuance of a forestry permit in August, Reuters reported.

Construction of the Karebbe dam on Sulawesi was suspended in January last year, pending the permits from the Forestry Ministry.

"The Board of Commissioners of PT Inco has approved the resumption of construction at the hydroelectric Karebbe project following the issuance of a forestry permit in late August," the company said in a release on Monday (1/10/07).

The Karebbe dam, which will cost \$180 million, is expected to provide an additional 90 MW of power a year and to help boost production to about 200 million pounds of nickel in matte per year.

"We expect to start construction in the fourth quarter of this year," said Rajeshnagara Sutedja, Inco's spokesman, adding the dam is expected to be completed by 2010.

PT Inco aims to produce between 160-165 million pounds of nickel in matte this year.

OIL & GAS

Banyu Urip Reserves 350M Barrels: Pertamina

State-run Pertamina said on Wednesday (3/10/07) it estimates oil reserves in the main Banyu Urip field in the giant Cepu block at 350 million barrels, above ExxonMobil Corp's initial assessment of 250 million barrels.

The cost of developing the Banyu Urip oilfield is also expected to rise from initial estimates of \$1.2 billion, said Hestu Bagyo, Pertamina's head for the Cepu project.

"Pertamina estimates the recoverable reserves of 350 million barrels in Cepu's Banyu Urip field only," Hestu Bagyo, Pertamina's head for the Cepu project, told Reuters.

"Because of higher drilling costs and land clearing, the development cost of Banyu Urip will be higher than the initial project estimated cost," Bagyo said.

ExxonMobil is jointly developing the onshore Cepu block, located between Central and East Java provinces with Pertamina, and ranks among the major's top 10 projects worldwide.

The whole Cepu block includes seven other fields such as Alas Dara/Kemuning, Jambaran, and Cendana fields, which together with Banyu Urip had been estimated by the government to have potential reserves of 600 million barrels.

Deva Rachman, ExxonMobil Indonesia's spokeswoman, said the total cost of developing the whole Cepu block was estimated at about \$2.6 billion. "For the Banyu Urip project, the initial estimate of the cost was \$1.2 billion. For that project, under our new estimate, that cost will be higher, but a total figure has not been calculated," Rachman said.

Bagyo said that production from Banyu Urip was expected to start at the end of 2008 or early 2009, even though Pertamina deputy president director Iin Arifin Takhyani said in August that early production had been delayed by about nine months to October 2009.

BPH Migas to Tender Java Gas Pipeline

Downstream oil and gas regulator BPH Migas said Wednesday (3/10/07) it will soon launch a tender for a 220-km natural gas transmission pipeline project in Java pending approval from the energy minister.

Participants must have secured government licenses to bid for the exclusive rights to operate the project, Thomson Financial quoted BPH Migas chairman Tubagus Haryono as telling reporters.

The eligible bidders include state-run oil and gas company PT Pertamina and state gas distributor PT Perusahaan Gas Negara (PGN).

The pipeline will link Cirebon in West Java to Muara Bekasi, Haryono said, adding that his office is also preparing four other pipeline projects for tender.

Pertamina, LUKOIL to Seek New Block

State oil firm Pertamina and Russian oil major LUKOIL will jointly apply for rights to explore offshore of Semai block in Papua province, Pertamina's chief said on Monday (1/10/07).

"We will choose Semai block because it has the potential of crude reserves. We don't know yet how big the reserves are, but if we are awarded then we will explore to determine the reserve," Reuters quoted Ari Soemarno, Pertamina's CEO, as telling a press conference.

The government plans to open a tender for around 25 oil and gas exploration blocks, some of them new.

Nippon Oil, Mitsubishi to Raise Tangguh LNG Stakes

Nippon Oil Corp., Mitsubishi Corp. and two other Japanese companies agreed to raise their shareholdings in Papua's Tangguh liquefied natural gas project, Bloomberg reported on Monday (1/10/07).

The companies, including Inpex Holdings Inc. and Mitsui & Co., will acquire all of Kanematsu Corp.'s stake in an Indonesian company that has invested in the LNG project, Nippon Oil said in a statement Monday in Tokyo. Kanematsu, a Japanese trading house, owned shares in KG Berau Oil Exploration.

Nippon Oil will pay about \$41 million for an additional 1.22% stake in the project, boosting its holdings to 13.45%, according to the statement. The acquisition will be completed by October 22.

Mitsubishi will increase its stake in the Tangguh project to 9.92% from 9.13%, and Inpex to 7.79% from 7.17%. Mitsui's holdings in the project will rise to 2.3% from 0.99%.

Tangguh will have an initial production capacity of 7.6 million metric tons of LNG a year. BP Plc owns 37.16% of the \$5 billion project, making it the biggest single investor, while CNOOC Ltd. is the second largest with 16.96%.

Pertamina to Hike Capex to \$2.2b In 2008

Pertamina expects to increase its capital expenditure next year by 67% to Rp20 trillion from Rp12 trillion this year. Most of the spending will be on upstream businesses, a senior official told *Platts Commodity News* Tuesday (2/10/07).

"There are several upstream projects that will be carried over from this year to next," Pertamina finance director Ferederick Siahaan said.

In 2005, Pertamina's spending was Rp6.3 trillion, but the figure has been rising every year. It hopes to increase its upstream spending by 75% from Rp8 trillion this year to Rp14 trillion next year.

The hike is driven by the development of the Senoro-Matindok blocks as well as the Pertamina-ExxonMobil-held Cepu block, Siahaan said.

The company had cut its upstream spending this year from the initial Rp10.1 trillion to between Rp7 trillion and Rp8 trillion because some projects were delayed, Pertamina's upstream director, Sukusen Soemarinda, said.

Pertamina EP, the state-owned oil and gas company's upstream subsidiary, pumped 107,000 b/d of oil and 944 Mcf/d of gas in 2006. The oil output is expected to increase by 10.3% this year to 118,000 b/d, while the gas output is expected to rise by 59% to 1.3-1.5 Bcf/d.

Meanwhile, Pertamina expects to boost its downstream spending from Rp4 trillion this year to Rp6 trillion next year. "We plan to build fuel storage facilities, add vessels, build infrastructure and revamp refineries," Siahaan said.

Pertamina wants to increase its capacity to reduce Indonesia's dependence on refined product imports. It has also decided to undertake capacity expansion at some of its existing refineries to increase its overall refining capacity by 20% from the current 1.05 million b/d by 2012.

Pertamina estimates it needs \$10.5 billion in investment for its processing sector, which includes construction of new refineries, modification of existing refineries and repairs through 2010, the company's president director, Ari Soemarno, said in June.

MINING

Antam to Reduce Dependence on Nickel

State-owned miner PT Aneka Tambang plans to reduce its dependence on nickel and step up its gold and bauxite business in coming years, a senior company official said.

The firm expects nickel to account for 60-70% of its revenue within 10 years, down from more than 90% currently, while gold and bauxite will contribute around 40% to its coffers, Kurniadi Atmosasmito, Antam's finance director, said.

"It will be difficult to depend on one commodity and nickel has been dominant in our revenue. We need to have a balance," Reuters quoted Atmosasmito as telling a press conference on Tuesday (2/10/07).

Antam plans to acquire gold mines to boost its gold reserves which are expected to run out by 2013.

"We have short-listed 10 gold mines but we're going to pick one which will be profitable for Antam," said Atmosasmito, adding gold investment was relatively stable due to higher oil prices and growing demand from China and India.

Last month, the company signed a deal worth up to \$1.4 billion with Russia's United Company Rusal to construct a bauxite and alumina complex in Kalimantan from 2009.

"Antam plans to develop more new smelters for gold and bauxite in future. We have to be a bit aggressive to diversify our business," Atmosasmito said.

Bumi Cuts Coal Output Target 2% After Rain

PT Bumi Resources cut its estimate for output this year by about 2% after heavy rains hampered production and transportation at several mines, an executive said.

Bumi, which said on August 6 that output may be 58 million metric tons, may instead produce 57 million tons, Bloomberg quoted Dileep Srivastava, head of investor relations, as telling reporters Thursday (4/10/07). "The rainfall was unusually high," he said.

The rains in August and last month forced companies, including Thailand's Banpu Pcl and Straits Asia Resources Ltd., to miss contracted shipments from mines in South Kalimantan, boosting coal prices. Bumi, which has said it won't renege on shipments, has offered contractors incentives to step up output.

Bumi plans to sell between 63 million tons and 65 million tons of coal next year, Srivastava said. The Jakarta-based company also expects the fuel to fetch an average price of \$50 a ton next year compared with an estimated \$43 this year, he said.

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