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REPUBLIC OF INDONESIA

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POLITICS

Jakarta, Russia in \$1 Bn Arms Deal

Indonesia sealed a \$1 billion deal to purchase Russian tanks, helicopters and submarines during a visit by President Vladimir Putin on Thursday (6/9/07), marking a further sign of Moscow's growing re-engagement in the region, Reuters reported.

The visit by Putin, the first to Indonesia by a Russian or Soviet leader in around five decades, also saw the signing of billions of dollars in mining and energy deals.

Russia, one of the world's leading arms traders with annual sales topping \$5 billion in bumper years, wants to break into new markets and to rebuild its influence in Asia where Washington, and now increasingly China, have held sway in recent years.

"We have agreed to expand cooperation in areas we consider most important such as energy and mining, aviation, communications and others," Putin said after talks with President Susilo Bambang Yudhoyono. "There's a good perspective to work together in the military and technical fields."

Indonesia plans to purchase 10 transport helicopters, five assault helicopters, 20 amphibious tanks and two Kilo-class diesel submarines from Russia, which will provide state credit facilities, Defense Ministry spokesman Edy Butar Butar told Reuters on Tuesday.

Indonesia agreed earlier to buy Sukhoi combat aircraft in a deal worth \$335 million, but it still has to find a bank to finance the deal.

Weapons for the Su-27 and Su-30 fighters and for four of the jets bought during the administration of President Megawati Sukarnoputri were part of the \$1 billion deal.

"The approach of Russia and Indonesia to global and international issues is very much alike," said Putin, who discussed Iraq, North Korea, Iran, the Palestinian territories and fighting terrorism with the Indonesian president.

"The two presidents strongly believe that international and regional conflicts ... should be settled by peaceful means," the two leaders wrote in a joint statement. "The use of force is admissible as the last resort and only in accordance with the United Nations charter."

Navy Boosts Corvette Fleet

The Indonesia Navy expects to have a fleet of 40 corvettes by 2015 as part of efforts to upgrade weapons systems and improve protection of the country's maritime resources, according to Defense Minister Juwono Sudarsono, Detik.com reported.

The first new vessel, KRI *Diponegoro* 365, dropped anchor at Tanjung Priok seaport on August 31 after its delivery voyage from the Netherlands. Three more are expected before the end of next year.

All 40 ships will be equipped with sophisticated Ship Integrated Geometrical Modularity Approach (SIGMA) technology and are part of a deal signed in 2002.

"Offers to assemble the ships have come from Germany, Italy and Korea, but we hope to build some of them ourselves in Surabaya," Sudarsono said.

Suharto Settlement Fails

State prosecutors have failed to reach an out-of-court settlement with former autocrat Suharto over a civil suit they filed against him in July, Agence France-Presse reported on Tuesday (4/9/07).

They are seeking the recovery of more than \$1.5 billion in state assets and damages for the alleged channeling of funds from a charity Suharto chaired to companies linked to his relatives.

Prosecutor Dachmer Munthe said that a 30-day mediation period did not produce a settlement as Suharto was adamant that he had not broken the law.

Suharto's lawyer, Juan Felix Tampubolon, confirmed that the team did not agree any assets should be returned. The case will now be heard by the court.

Wanted: \$800m in Hong Kong

Australia is currently in negotiations with Hong Kong to bring back \$800 million in assets belonging to the late owner of Bank Harapan Sentosa, Hendra Rahardja, who siphoned the money from the Bank of Indonesia Liquidity Support (BLBI) fund, *The Jakarta Post* reported on Wednesday (5/9/07).

Deputy Attorney General Muchtar Arifin said negotiations over the assets were under discussion between Australia and Hong Kong because the money was channeled through Australian banks.

"Hong Kong authorities have disclosed that Rahardja's total assets there reached over \$800 million," he said. "Since the assets were transferred from Australia to Hong Kong we asked the Australian government to help us. It is now finishing technical matters with Hong Kong. We are optimistic that we can recover the assets by next year."

Rahardja, who was sentenced to life imprisonment in absentia for embezzling Rp1.95 trillion (\$216.7 million) in BLBI funds, died of cancer in Australia in January 2003.

According to the AGO team, Rahardja possessed assets of about \$9.3 million in Australia, but so far Indonesia has recovered only A\$642,000.

Indonesian officials allege that Rahardja's family and friends sold all of his assets and transferred the money to Hong Kong, China, the Cayman Islands and the Virgin Islands soon after they learned that the Indonesian government was after the money.

Australia and Indonesian officials are currently also working together to secure the extradition of Rahardja's son, Eko Edi Putranto, who was convicted in absentia and sentenced to 20 years in prison and fined Rp1.95 trillion by the Central Jakarta District Court on March 22, 2001.

The Attorney General's Office is also seeking assistance from the Australian government to return fugitive banker Adrian Ariawan, wanted for stealing BLBI funds.

Ariawan, a former president director of the now-defunct Bank Surya, was found guilty in absentia of misappropriating Rp1.9 trillion (\$202.3 million) in funds distributed under the BLBI scheme in 1997. The bank's former deputy commissioner, Bambang Sutrisno, was also found guilty in the case.

Malacca Strait Security Upgraded

Indonesia, Malaysia and Singapore have come up with a co-operative mechanism to ensure navigational safety and environmental protection in the Malacca and Singapore Straits, Channel News Asia reported on Monday (3/9/07).

Speaking at a meeting on enhancing safety in the Straits of Malacca and Singapore, Singapore Transport Minister Raymond Lim said the mechanism institutionalizes co-operation with users of the strait.

At the same time, it also reaffirms the sovereignties of the littoral states and provides a regular platform for dialogue between littoral states, user states and other stakeholders.

The mechanism gives alternative avenues for user states and other stakeholders to contribute to projects that can advance the safety and environmental protection of the strategic waterway.

Lim stressed that where shipping is concerned, the importance of international co-operation cannot be over-emphasized. "An important step in this direction was taken last year, when an Information Sharing Centre was established under the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia, or ReCAAP.

"With 14 countries coming together to cooperate, exchange information and share expertise to combat piracy and armed robbery in regional waterways, it is a milestone in inter-governmental anti-piracy cooperation."

Amrozi Loses Final Appeal

The Supreme Court has thrown out a final appeal by one of the three militants on death row for the 2002 Bali bombings, Reuters reported on Friday (7/9/07).

Lawyers for Amrozi had sought a review of his case, arguing that the Constitutional Court had in 2004 ruled that anti-terrorism laws could not be applied retrospectively.

Supreme Court judge Djoko Sarwoko said the decision to reject Amrozi's appeal was made on August 30. "It did not meet the requirements of the law," he told Reuters, saying that it was now up to the Attorney General's Office (AGO) to decide the date of his execution.

Verdicts for the two other death-row convicts, Imam Samudra and Mukhlas, also known as Ali Gufron, are still pending.

The three men were tried using anti-terrorism laws which were written in the wake of the October 12, 2002 bombings that killed 202 people, mostly foreign tourists.

Indonesia last year put off a plan to execute the three men because lawyers said legal avenues had not been exhausted, although courts at various levels had dismissed their appeals.

REGIONS

US To Lift Bali Travel Warning

The US will soon lift its travel warning to Bali as the Ngurah Rai international airport has met international security standards.

Chadik Wibowo, aviation security manager of state-owned airport operator PT Angkasa Pura I at Ngurah Rai, told *The Jakarta Post* on Saturday (8/9/07) the Transportation Security Administration (TSA) agency had informed him the US government would soon lift the travel warning to Bali.

"You will receive good news shortly," Chadik quoted an official at the TSA headquarters in Washington DC as saying during a visit to airports in the US from Aug. 12-24.

Chadik was told the proposal to withdraw the travel warning to Bali had been lodged with the US Congress and "it was just a matter of time" before its official announcement.

TSA is a US government agency created in response to aviation security threats after the September 11, 2001 terror attack.

In December 2005, it advised airline passengers to avoid Ngurah Rai airport because it did not maintain or administer effective aviation security measures and failed to meet the security standards set by the International Civil Aviation Organization (ICAO).

Then-Transportation Minister Hatta Radjasa protested the assessment and announcement made by TSA on Ngurah Rai, saying that it should be the ICAO, not TSA that had the authority to conduct such an assessment.

Chadik said PT Angkasa Pura I had made concerted efforts to improve infrastructure and human resources pertaining to security management.

The airport now employs 820 security personnel and has placed X-Ray devices to screen all cargo.

Month's Amnesty to Surrender Aceh Weapons

Civilians in Aceh in illegal possession of firearms will be given one month to turn over the weapons to the authorities, Antara news agency quoted Governor Irwandi Yusuf as saying on Wednesday (6/9/07).

"We call on them (civilians) to immediately hand their illegal weapons to the police," the governor said, adding that under the Helsinki peace deal signed on August 15, 2005 between the government and the Free Aceh Movement (GAM) rebels, all fire arms and explosive materials of any kind in the province had to be destroyed.

Yusuf said the provincial administration together with the Indonesian Armed Forces (TNI) and the police would soon announce the deadline across the province. The governor said afterwards civilians would be violating the law if they possessed weapons and explosive materials illegally.

"In the peaceful situation that prevails now, we don't want to see any violence or robberies by gunmen in Aceh province," the governor said.

Leaders Want New Province in Papua

A group of Papuan public figures has called on the government to restart discussions on the establishment of Central Papua province in order to speed up development programs and address poverty in the region, Antara reported.

The group met with the government and the House of Representatives to ask for more thought to be given to the establishment of Central Papua province, the chairman of the Team for the Reactivation of Central Papua Province, Norbert Mote, said in a meeting with the House's Commission II on home affairs Wednesday (5/9/07).

Mote said the team had lobbied the Home Ministry and prepared facilities and infrastructure, including land and buildings in Nabire, which they want to be the capital of the province.

He said the 2003 Constitutional Court verdict endorsing West Papua province and neglecting Central Papua was regrettable. Central Papua lacked an effective government at the time, he said.

"From all economic, political and territorial perspectives, Central Papua is feasible for development into a new province and it looks unfair if only the existence of West Papua province is accepted," he said.

Besides West Papua and Central Papua, the establishment of South Papua and Southeast Papua provinces has also been pushed under the 2001 Special Autonomy Law, with proponents arguing that smaller administrative areas would speed up economic and social development.

Commission II Chairman E.E. Mangindaan said the commission understood the Papuan people's demands and would discuss them with newly appointed Home Minister Mardiyanto.

Aussies Ignoring Travel Warnings: Ambassador

Despite regular travel advisories issued by their government warning them of the dangers of traveling to Indonesia, more and more Australians are traveling to Indonesia every year.

"I can tell you that the number of Australians who came to Indonesia this year so far is about 50% higher than the number who came to Indonesia last year," *The Jakarta Post* quoted Australian Ambassador to Indonesia Bill Farmer as telling an Australian Development Scholarships (ADS) alumni conference in Jakarta on Thursday (6/9/07).

The number of Indonesian visitors to Australia increased by around 9% compared to the same period last year, the Australian Embassy said. As of August this year, more than 100,000 Australians have come to Indonesia while more than 62,000 Indonesians visited Australia during the same period.

In Bali alone, more than 86,000 Australians arrived in the first half of this year, a 52% increase compared to the same period last year. Farmer said that Australians would look at the government's advice, but make up their own minds.

He said two Australian airlines, Qantas and Jetstar, put on extra flights between Australia and Indonesia in the second half of this year to serve the growing demand.

Concerns about another terrorist attack, however, have meant the Australian government still has not lifted the travel advisory on Indonesia it released this year.

ECONOMY

Investments More Than Double in First 8 Months

Actual domestic and foreign direct investments (FDI) in Indonesia during the first eight months of the year rose 123% from a year earlier to \$11.70 billion, the National Investment Coordinating Board (BKPM) said Friday.

Actual FDI in the January to August period rose 106.9% from last year to \$8.13 billion, while domestic investment surged 171.9% to \$3.57 billion, Agence France-Presse reported. Realized investment projects absorbed 203,190 workers, BKPM said.

The paper and printing industries were the most popular sectors for foreign investment, with approved proposals worth \$13.81 billion during the first eight months. The chemical and pharmaceutical industry came in second with approved proposals worth \$6.9 billion.

The figures do not include investments in oil and gas or the finance sector. These were the focus of business deals signed during the visit of Russian President Vladimir Putin on Thursday (6/9/07).

Altogether, the business deals were worth at least \$5 billion, *The Straits Times* reported, and included a \$1.5 billion investment in deep sea oil-and-gas exploration projects with state-owned PT Pertamina.

Another state-owned company, miner PT Aneka Tambang, signed an MoU with Russia's Rusal, the world's biggest producer of aluminum and alumina, to set up a \$3 billion joint venture to manage the Kayan bauxite mining project in West Kalimantan.

M.S. Hidayat, chairman of the Indonesian Chamber of Commerce and Industry, said other deals included a tie-up between Bank Mandiri and Russia's Alfa Bank, which could push the total value of the business deals signed to \$8 billion.

Jakarta also gave Russian visitors visa-on-arrival status in a move that could boost the number of Russian tourists. More than 20,000 Russians visited Indonesia last year, *The Straits Times* said.

Putin and President Susilo Bambang Yudhoyono told a joint press conference they hoped bilateral trade could be pushed to \$1 billion a year, up from the current level of close to \$700 million, less than half a per cent of Indonesia's \$162 billion total trade for 2006.

Inflation during August rose 0.75% for a year-on-year figure of 6.51%, prompting Bank Indonesia to leave its benchmark rate at 8.25%.

"Inflationary pressure is still high near term, that's why we have kept the rate unchanged," central bank governor Burhanuddin Abdullah told reporters, Reuters reported.

Analysts expect inflation to moderate in November after the major Idul Fitri holiday, giving the central bank room for another quarter-point cut by the end of the year.

Total exports for July put on 4.2% to \$9.81 billion, with non-oil and gas exports putting on 5.3% month-on-month to \$8.02 billion. The value of imports rose 5.5% to \$6.26 billion.

The Jakarta Stock Exchange composite index closed the week at 2,239.90, 0.9% up on the day Friday amid new enthusiasm for the market on expectations of strong second half earnings and overall prospects for the economy. The rupiah was stable, trading at 9,398/9,403 to the US dollar.

Indicators:

	June	July	Jan-July 07/ Jan-July 06	Trade surplus First semester
Total exports	\$9.42 billion	\$9.81 billion	13.86%	\$19.99 billion
Non-oil & gas exports	\$7.61 billion	\$8.02 billion	20.22%	\$19.61 billion
	July (y-o-y)	July (m-o-m)	August (y-o-y)	August (m-o-m)
Inflation	6.06%	0.72%	6.51%	0.75%
	Full year 2005	Full year 2006	1Q 2007	1H 2007
GDP growth	5.60%	5.5%	5.97%	6.1%
Tourist arrivals	June	July	Growth/loss (m-o-m)	Growth/loss (y-o-y)
	411,264	423,500	2.87%	16.31%

Source: Central Statistics Agency

BUSINESS BRIEFS

MACROECONOMY

BI Keeps Rates Steady on Inflation

Bank Indonesia (BI) left its key interest rate steady at 8.25% on Thursday (6/9/07), as expected, in view of volatile markets and inflationary pressure.

"Inflationary pressure is still high near term that's why we have kept the rate unchanged," BI Governor Burhanuddin Abdullah was quoted as saying by Reuters.

Analysts said there is little reason to further cut rates now as growth in the country is seen hitting about 6% this year, the fastest pace in 11 years, due to strong consumer spending amid benign interest rates and steady global demand for its commodities such as palm oil.

But they expect one more rate cut either in November or December that will bring the key BI rate to 8%

as inflation is likely to moderate after the end of the Muslim fasting month of Ramadhan, which begins on September 13.

The consumer price index in August rose 0.75% from July and was up 6.51% from the previous year driven by the higher cost of education, fresh food and housing,

Inflation in the eight months to August stood at 3.58%, Central Bureau of Statistics chairman Rusman Heriawan said Monday.

July Trade Surplus Widens to \$3.55b

The country's trade surplus widened to \$3.55 billion in July from \$3.49 billion in June, the Central Bureau of Statistics (BPS) said Monday (3/9/07). The surplus compared with a \$3.45 billion surplus in June 2006.

Exports rose 4.1% on month to \$9.81 billion, while imports gained 5.6% to \$6.26 billion from \$5.93 billion, the bureau said.

Non-oil and non-gas exports edged up to \$8.02 billion from \$7.61 billion in June. Imports of these products increased to \$4.6 billion from \$4.31 billion a month earlier, it added.

Crude oil and oil-product exports dropped to \$930.6 million from \$1.09 billion in June, while imports rose a tad to \$1.67 billion from \$1.63 billion in June, resulting in a \$739.4 million deficit for crude oil and oil-product exports for the country.

Natural gas exports rose to \$866.1 million in July from \$713.4 million in June.

BPS chairman Rusman Heriawan said exports of crude palm oil accounted for 9% of total non-oil and non-gas exports during the first seven months of the year, making it the single largest contributor to the sector.

"Machinery and electrical appliances are no longer the largest contributor to our non-oil and non-gas exports," Heriawan was quoted as saying by Dow Jones Newswires.

Foreign Capital Flows Back

Foreign capital has begun to return to domestic financial instruments after large capital outflows from Bank Indonesia promissory notes (SBI) and state bonds as a result of global financial turmoil, a Bank Indonesia (BI) official said, according to Antara.

Central bank spokesman Budi Mulya said foreign investment in SBI dropped from Rp29.9 trillion (\$3.2 billion) at the end of July to only Rp12 trillion in the third week of August as a result of the turmoil triggered by the US subprime mortgage crisis.

However, in the last week of August, foreign investors began to buy more SBIs, increasing foreign capital investment in the promissory notes to Rp17.4 trillion by the end of that month.

The amount continued to pick up to reach Rp18.4 trillion on Tuesday (4/9/07), Mulya said.

Apparently foreign investors still found investing in SBIs and state bonds more profitable, especially with the relatively stable macroeconomic conditions, he said.

Third Retail Bond Sale Attracts Rp8.67 T

The government's third treasury retail bond sale has attracted demand totaling Rp8.67 trillion, a finance ministry official said Friday, Thomson Financial reported.

The sale of bonds in the ORI003 series began on August 27 and was due to end Friday, according to

Director General for Debt Management Rahmat Waluyanto. The government will decide the final amount to be sold on Monday.

The bond will mature on September 12, 2011 and will carry an annual coupon rate of 9.40%.

INVESTMENT

Investment Back to Pre-Crisis Level: BKPM

Investment approvals have returned to those before the economic crisis of 1998, the head of the Investment Coordinating Board (BKPM), M. Lutfi, was quoted as saying by Dow Jones Newswires.

Lutfi said he expects total investment commitments by both foreign and local investors to reach \$55 billion by the end of the year.

He said investment plans have been surging this year partly due to investors returning after holding off their investment plans last year because of the government's move to more-than-double fuel prices in late 2005.

Actual foreign and domestic direct investments in the country during the first eight months of the year rose 123% from a year earlier to \$11.7 billion, BKPM data showed.

It said actual foreign direct investment (FDI) in the January-August period rose 106.9% from last year to \$8.13 billion, while domestic investment surged 171.9% to \$3.57 billion, Thomson Financial reported. Realized investment projects absorbed a workforce of 203,190 people.

The data also showed that total investment proposals approved by the board in the first eight months rose 144.5% to \$47.55 billion.

The board said approved FDI proposals rose 156.8% to \$31.33 billion while approved domestic investment proposals grew 51% to \$16.22 billion.

The paper and printing industries were the most popular sectors for FDIs, with approved proposals worth \$13.81 billion during the first eight months. The chemical and pharmaceutical industry came in second with approved proposals worth \$6.9 billion.

India's KS Oils to Buy Palm Plantations

India's leading rapeseed oil manufacturer, KS Oils Ltd, plans to buy palm plantations in Indonesia and Malaysia to meet growing edible oil demand in India, its managing director said Thursday (6/9/07).

"We have chalked out a plan to buy around 8,000 to 12,000 hectares of palm plantations in both these countries and have already finalized a deal in Malaysia," Sanjay Agarwal told Dow Jones Newswires.

The company has earmarked \$36.7 million to purchase palm plantations in the two countries.

Earlier, another large Indian edible oil manufacturer, Ruchi Soya Industries Ltd said it is also looking to purchase palm plantations in Indonesia and Malaysia.

Bayer to Set Up Production Base in W. Java

A unit of German drug and chemicals group Bayer AG aims to make an expanded plant in Indonesia an Asia-Pacific production base for consumer care products.

Hans-Josef Schill, president director of PT Bayer Indonesia, was quoted as saying by *The Jakarta Post* on Friday (7/9/07) that the expansion of the plant would allow the firm to gradually lift its annual production capacity to 2,000 tons of over-the-counter medication from 700 tons currently.

"The expansion will allow the company to gradually increase its production capacity to up to 2,000 tons by 2012 for the domestic and regional markets," Schill told reporters after the inauguration of the expanded plant in Cimanggis, West Java.

Bayer Indonesia, which mostly produces pharmaceutical and over-the-counter drugs, said the expanded plant was acquired from the Indonesian unit of Swiss pharmaceutical company Roche.

Schill said the plant would produce consumer brands for the local market and countries in the region, including Malaysia, South Korea, Taiwan, China, Hong Kong and Australia.

Part of the production would also be exported to France. Bayer Indonesia expected the expansion to allow the company to increase exports 7.5-fold by 2010, from Rp20 billion to Rp25 billion (\$2.13 million to \$2.66 million) in 2005.

Sharp to Build LCD TV Assembly Plant in Jakarta

Japanese electronic company PT Sharp Electronics Indonesia plans to build an assembly plant for liquid crystal display (LCD) television sets in Jakarta early next year.

The facility is planned to increase the market share of Sharp LCD especially for 20-, 26- and 32-inch types in the country, company president Fumihiko Iries, said, according to Antara.

The LCD screen market has continued to expand in the country, prompting his company to target a market share of 25% this year, up from 23% in 2006, Iries said.

STATE CONCERNS

Steps to Lower Cooking Oil Prices

The government is planning steps to ensure that domestic cooking oil prices ease by 10% to 15% in the next few weeks, a senior government official said on Wednesday (5/9/07).

"We cannot afford cooking oil prices to remain high as our main festival season of Ramadhan and Idul Fitri is approaching," Djoko Said Damardjati, Director General of Processing and Marketing at the Agriculture Department, told Reuters on the sidelines of a regional grains conference in Perth.

The previous week, the government introduced a new palm oil export scheme in a fresh bid to contain soaring cooking oil prices.

Under the new tax scheme, the government will set the export tax for crude palm oil at 10% if international prices are above \$850 a ton, at 7.5% if prices are between \$750 and \$849 a ton and 5% if international prices are between \$650 and \$749 a ton.

In a bid to ensure affordable prices of cooking oil, the government has also allocated Rp325 billion (\$34.57 million) to subsidize cooking oil for the poor.

The subsidized cooking oil will be sold to low-income families in special markets for three months, starting during the Muslim fasting month of Ramadhan in the middle of September and after the Idul Fitri festival in October.

30m Hectares of Land for Farm Bank

The government has set a target of earmarking a total of 30 million hectares of land in the country as permanent farmland, which cannot be converted for other purposes, Agriculture Minister Anton Apriyantono said.

"To date, Indonesia only has about 7.4 million hectares of farmland. We hope we can have a total of 30 million hectares of permanent farmland in the future," he said on Monday (3/9/07), according to Antara.

Half of the 30 million hectares would be used as irrigated paddy fields and the other half as dry paddy fields, he said.

The minister said the government and the House of Representatives (DPR) are still formulating a bill on the classification of permanent farmland.

The proposed law would hopefully reduce the increasing conversion of farmland for other purposes due to rapid population growth and economic development.

"Around 150,000 hectares of farmland are being turned into estates for non-agricultural purpose every year," he said.

Govt. to Raise Rice Import Duties

The government will raise the import duty for rice from Rp450 (\$0.05) per kg to Rp550 per kg after the State Logistics Agency (Bulog) completes its import of 1.5 million tons of rice this year.

"We adopt this policy to ensure that prices at home would not drop drastically or increase sharply. This policy is basically for price stabilization," Trade Minister Marie Pangestu was quoted as saying by Antara.

The minister said the Rp100 increase is not expected to drag down rice prices at the farm level, or harm Bulog.

SOEs

State Firms to Build Four Sugar Mills

The government plans to build four sugar mills across the country with a combined capacity of 20,000 tons of cane per day as part of moves to become self sufficient in the commodity, an agriculture official said on Wednesday (5/9/07).

The country aims to boost production of white sugar from local plantations by 40% to 3.3 million tons in the next two years.

Funding for the new mills, to be built by four state firms, will come from an overall sugar sector investment of Rp10.2 trillion (\$1.09 billion), out of which 80% has been allocated for revitalizing 52 ageing sugar mills in the country.

"Operations at the four sugar mills are expected to be in full swing in late 2009," Agus Hasanuddin Rachman, director of perennial crop development at the Agriculture Department, told Reuters.

Rachman said state-owned plantation firm, PT Perkebunan Nusantara (PTPN) X, would build a mill in Nusa Tenggara Timur, while PTPN IX would build one in Central Java's Kendal.

PTPN XI picked East Java's Banyuwangi to build its sugar mill, while Indonesian trading firm, Rajawali Nusantara Indonesia, would construct a mill in West Java's Garut.

Meanwhile, PTPN X is exploring the possibility of obtaining a syndicated loan worth Rp1.1 trillion (\$116.6 million) from Bank Mandiri, Bank Rakyat Indonesia (BRI), Bank Mega and Bank Central Asia (BCA), its financial director Tendry Supriatno said recently.

"The syndicated loan is needed to revitalize the company's plantations which are estimated to need about Rp1.6 trillion," Supriatno said, according to Antara.

He said that for the revitalization of its plantations, PTPN X had held intensive talks with Bank Mandiri to obtain credits amounting to Rp1.1 trillion. The remaining Rp500 billion would be taken from the company's internal resources, he added.

Garuda Mulls Buying 20 Airbus Jets

Flag carrier PT Garuda Indonesia is considering buying 20 Airbus A320 aircraft worth about \$1.3 billion, airline director Ari Sapari said Thursday (6/9/07).

"It is still just a discussion, we still need some evaluation," Sapari told Agence France-Presse, adding that negotiations with Airbus had not yet begun.

He said that the purchase of the 20 jets would be "in line with Garuda's plan to develop our operations".

Late last year, Garuda signed a contract to purchase 25 Boeing 737-800 NG aircraft, which are expected to be delivered in stages from May 2009 to February 2012. The airline is also awaiting delivery of three Airbus A330-300s, part of nine aircraft under order.

Meanwhile, state-owned airline PT Merpati Nusantara Airlines will start operating two new Chinese made Xinzho 60 (MA60) aircraft this week.

The two 56-seat passenger planes, which arrived on September 1 and 4, will serve feeder routes in Bali, Nusa Tenggara and East Java, Merpati secretary Irvan Harijanto said, according to an Antara report on Wednesday (5/9/07).

The two turbo propeller aircraft, using Pratt & Whitney engines, are part of Merpati's order of 15 MA60 units from China.

PRIVATE SECTOR

Excelcom to Cut Some Mobile Call Rates

The country's third largest mobile phone company, PT Excelcomindo Pratama, will offer price discounts in Jakarta and Bali to win subscribers.

Excelcom plans to charge rates as low as Rp60 a minute in the two cities starting this month, president director Hasnul Suhaimi said in a recent interview in Singapore, according to Bloomberg News.

Suhaimi, formerly head of PT Indosat, the country's second largest mobile operator, joined Excelcom in September 2006 to help boost its 14% market share.

PT Sinar Mas Telecommunications began service on September 3 with Rp45-a-minute calls. Sinar Mas is the 10th service provider in the country.

Hong Kong billionaire Li Ka-shing's Hutchison Telecommunications International Ltd, which started operations in March, offers rates as low as Rp100 a minute.

Excelcom, controlled by Telekom Malaysia Bhd, expects to add 4.5 million customers this year for a total of 14 million, Suhaimi said.

Meanwhile, PT Bakrie Telecom's Esia brand hopes to attract more subscribers by selling cheap Chinese handsets in cooperation with China-based vendor Huawei.

Bakrie hopes to increase the number of its subscribers to 3.6 million by the end of the year from 2.25 million by June, vice president Erik Meijer said Monday (3/9/07), according to Antara.

Meijer said the handsets plus Rp50,000 (\$5.30) worth of Esia talk-time, would be sold at Rp199,000 (\$21) excluding tax. The handsets are sealed and could only be used on the Esia networks, he said.

August Motorbike Sales Fall 3% Yr-on-Yr

Motorbike sales in the country fell nearly 3% in August from a year ago, mainly due to a sharp decline in sales of Honda motorcycles, industry data showed on Thursday (6/9/07).

Data from the Indonesian Motorcycle Industry Association showed sales declined to 427,226 units last month from 440,288 in August last year, Reuters reported.

Honda -- the market leader in the motorbike industry, which controls about 43% of the total market -- sold 187,436 units in August, down about 22% from the year-ago period. The data did not provide any reasons, but Yamaha has recently overtaken Honda's traditional leading position in the market.

Meanwhile, Toyota Motor Corp's August vehicle sales rose by a third to 13,492 units from the year-ago period, an executive at its local distributor said on Monday (3/9/07).

Global Media Sells Plaza Indonesia Stake for \$59m

PT Global Mediacom, Indonesia's largest media company, said it sold a stake in PT Plaza Indonesia Realty, raising Rp552 billion (\$59 million).

Global Mediacom sold 649.3 million Plaza Indonesia shares at Rp850 each in a series of transactions from August 22 to 24, it said in a statement to the Jakarta Stock Exchange.

Global Mediacom had 650.11 million shares, or an 18.3% stake, in the shopping center and hotel operator as of June 30, according to Plaza Indonesia's first-half financial report.

"The sale is to improve the company's liquidity and to focus on the media and telecommunications business," Global Mediacom president Hari Tanoesoedibjo said in the statement, according to Bloomberg News.

BANKS

Credit Disbursement Accelerates

Credits disbursed by the banking sector rose to an estimated Rp20 trillion (\$2.2 billion) in August from Rp11.4 trillion in the previous month, Bank Indonesia spokesman Budi Mulya said, according to Asia Pulse.

The strong growth provided greater optimism that the credit growth target of 22% this year would be achieved, Mulya said.

Investment credits accounted for the largest portion of 12.3% followed by consumption credit at 11.6% and working capital credit at 8.4%. By the end of July, outstanding credit totaled Rp915.6 trillion.

Mulya said that despite the enthusiasm reflected by the credit expansion, the amount of undisbursed loans remained unchanged at Rp170 trillion.

Bank Lippo Posts Solid Net Profit Growth

Bank Lippo reported a 65% growth in net profit in the first semester compared to the same period a year earlier.

Lippo, ranked among the country's top 10 banks, booked a net profit of Rp375 billion (some \$40.9 million) during the period, which president director Henk G Mulder said was attributable to the bank's strong lending performance, which expanded by 53%.

"Credit expansion of 53% year-on-year reflects the bank's commitment to its intermediation function in the economy. Loans provided to the consumer segment, and small and medium enterprises have been, and will continue to be, our emphasis," Mulder was quoted as saying by *The Jakarta Post* on Thursday (6/9/07).

The bank's loan portfolio is composed of 32% corporate loans, 45% commercial loans, including SMEs, and 23% consumer loans. The strong lending expansion, Mulder added, had been accompanied by prudent credit quality checks, as reflected in the bank's low non-performing loan (NPL) ratio of 1.7% as of the end of the first semester, compared to 2% for the same period in 2006.

"We maintain a prudent approach to our credit risk management, as evidenced by the lower NPL ratio." The growth in lending pushed up the bank's net interest income up by 19% to Rp910 billion, from Rp766 billion a year ago.

Lippo chief commissioner M. Ali Dewal said the bank's strong financial performance was the result of the ongoing transformation initiated by Malaysia-based company Khazanah Nasional Bhd since it took over the bank in 2005.

"We are continuing to improve as regards work systems, human resources and financial performance. We believe that this is the only way to do it so as to ensure sustainable growth," he said.

Dewal represents Khazanah, which owns an 87.03% stake in Lippo. The other shareholders are Greatville Pte Ltd (5.57%), the Indonesian government (2.24%) and retail investors (5.16%).

Bank Bukopin H1 Net Profit Up 31.7%

Bank Bukopin said Monday (3/9/07) its first-half net profit came in at Rp200.98 billion, up 31.7% from a year earlier, aided by higher interest income and fee-based income.

The bank booked first-half interest income of Rp1.58 trillion, up 8.2%. Its net interest income rose 3.9% to Rp622.23 billion, reported Thomson Financial.

Fee-based income rose 106.6% to Rp121.7 billion while the bank's operating profit rose 24.5% to Rp266.87 billion. The bank's net non-performing loans ratio edged up slightly to 2.87% of its portfolio from 2.65% a year ago.

BRI Shareholders Approve Bank Jasa Arta Buy-Out

Shareholders of Bank Rakyat Indonesia (BRI) on Wednesday (5/9/07) approved the bank management's plan to buy out Bank Jasa Arta for Rp500 billion, BRI president Sofyan Basir said.

Basir told reporters after an extraordinary shareholders' meeting that BRI will convert the acquired bank into a syariah bank.

"I expect the conversion process to be completed by year-end, therefore the bank will start operating early 2008," he was quoted as saying by Thomson Financial.

POWER

Forestry Ministry Green Light for Inco Project

Nickel miner PT International Nickel Indonesia (Inco) said Monday (3/9/07) the Forestry Ministry has given it permission to use a forested area adjacent to its concession area for the construction of the Karebbe hydroelectric generating facility in South Sulawesi, Thomson Financial reported.

Construction of the facility was suspended in January 2006 pending issuance of the permit. "We are very pleased to have received this permit that is central to moving forward on the project," Inco president and CEO Arif Siregar said.

He said Inco's board of commissioners will meet shortly to decide when to resume construction of the project. Once completed, the facility will increase Inco's hydroelectric power-generating capacity by 90 MW or 33%.

The Karebbe hydroelectric project was first announced on October 2004 as a part of Inco's program to raise annual production to about 200 million pounds (approximately 90,700 tons) of nickel in matte.

In 2006, PT Inco produced 157.9 million pounds (approximately 71,700 tons) of nickel in matte.

No Need for Floating Nuclear Plant: Minister

Technology and Research Minister Kusmayanto Kadiman reiterated that his ministry had no interest in a floating nuclear power plant but intended to follow up technical talks on a nuclear power plant to be operated in Indonesia by 2016, Antara news agency reported.

"When the two countries' heads of state met in Moscow last year, they discussed an Indonesian plan to build a nuclear power plant," Kusmayanto said in an interview with the Russian News Agency, RIA Novosti, in conjunction with Russian President Putin's visit to Indonesia on Thursday (6/9/07).

For an archipelagic country like Indonesia, according to the minister, there was always the option to build the project on land or a floating nuclear power plant. Indonesia still had vast areas of land, he said.

"Why not build the project on land, except for certain urgent reasons," he said. "For example, in Java, we need an additional 6.000 MW. In such a situation, a floating nuclear power plant is certainly not a good choice," he said.

In addition, the issue of building a nuclear power plant was not only a matter of technology but should also gain the approval of the community in general and an international permit, he said. "Why should we choose a smaller island for this project? Frankly speaking, in 2016, we concentrate on a big plan," he said.

Putin and Indonesian President Susilo Bambang Yudhoyono reached an agreement on cooperation on a nuclear power plant and Kusmyanto revealed that his ministry is currently studying the economic value, including the aspects of security and safety.

According to the minister, there are now six countries in the world capable of building nuclear power plants, among which is Russia, while Indonesia is yet to be able to build a nuclear power plant by itself but needs a transfer of technology.

OIL & GAS

Pertamina, Lukoil to Bid for Exploration Area

A venture owned by Lukoil, Russia's largest non-state oil producer, and Pertamina will seek the rights to explore for oil in the Semai block off Papua, Bloomberg quoted Ari Soemarno, president of Pertamina as telling reporters Thursday (6/9/07).

Semai is one of 25 blocks that the Indonesian government plans to offer this year.

"We see a big opportunity to develop fields with Lukoil in the future," Soemarno said. "The partnership is strategic."

Pertamina and Lukoil signed an agreement during the visit of Russian President Vladimir Putin to jointly explore for petroleum in Indonesia. The venture will invest \$1.5 million for a joint study to explore four blocks in Indonesia, said Minister for Energy and Mineral Resources Purnomo Yusgiantoro. The investment may be raised to \$2 billion if oil is found, he said.

Pertamina has signed agreements with overseas companies including Norway's Statoil ASA, to explore for oil in both Indonesia, Southeast Asia's largest crude producer, and the partners' countries.

Aabar to Spend \$500 Million on Drilling Program

Aabar Petroleum Investments Co., the first publicly traded oil and gas company in the Middle East, plans to spend as much as \$500 million drilling in Indonesia in the next five years, Bloomberg reported on Tuesday (4/9/07).

Aabar, based in Abu Dhabi, may pump as much as 200 million cubic feet a day from the Sebuk gas area off the coast of Borneo by early 2010, Richard Lorentz, vice president for new ventures and corporate communication, said in an interview in Jakarta. The company will also develop an oil field in Sumatra.

The Indonesian developments are part of Aabar's plans to multiply production 10-fold to the equivalent of as much as 200,000 barrels a day of crude oil in five years, Lorentz said.

Aabar plans to raise spending in Indonesia by 27% next year to \$140 million, most of which will be used to develop the Rubi field in Sebuk, about 350 km southeast of Bontang in East Kalimantan, Lorentz said.

The explorer is in talks with several potential buyers for the gas, Lorentz said, declining to elaborate.

Ranhill Set to Make Major Find: Report

Ranhill Bhd may be set to make the second largest oil discovery in Indonesia, sources told the *New Straits Times* Monday (3/9/07).

The discovery could exceed the one made by Australia's Santos group in 2005 when it found 170 million barrels of oil off the coast of Indonesia.

Ranhill is in the process of completing well logging and other relevant test at the Pasundan-1 exploration well in the Citarum block in West Java. "The laboratory tests are currently being done in Singapore, Australia and the UK, and the findings are expected to be revealed this week," a source said.

Based on the well logging study, the block has been estimated to have prospective reserves of more than 250 million barrels of oil.

Ranhill is expected to make an announcement soon upon completion of the tests and logging.

Earlier studies done by Gaffney, Kline & Associates – a UK-based consulting firm appointed by Ranhill – indicated that there are prospective resources of 150 million to 170 million barrels of oil in the Citarum block.

MINING

Antam, RUSAL Sign \$1.4 Bn Bauxite Deal

State-owned miner PT Aneka Tambang (Antam) and Russia's United Company (RUSAL) signed a deal on Thursday (6/9/07) worth up to \$1.4 billion to construct a bauxite and alumina complex in West Kalimantan from 2009, Reuters reported.

The joint venture, to be owned 51% by the Russian company, will have capacity to produce 1.2 million tons a year of alumina from 3.6 million tons of the raw material – bauxite – and could be extended to include power and aluminum.

"The initial estimated costs may be about \$1.2 billion to \$1.4 billion," Antam said in a statement. UC RUSAL said in a separate statement the budget would be defined by 2009.

UC RUSAL, which produces 16% of the world's alumina, said construction of the plant would begin in 2009 and that the first alumina would be produced in 2011.

The two companies are also exploring the possibility of expanding their cooperation into electric power generation and production of aluminum.

Indonesian Mines and Energy Minister Purnomo Yusgiantoro told reporters the value of the project could reach \$4 billion if infrastructure is included.

"If the first phase of the project is successful, then the project will build a smelter to process bauxite into aluminum and also a power plant in West Kalimantan," he said, but gave no time-frame.

Four Tin Smelters Set Up Consortium

Four tin smelters in the tin-producing islands of Bangka-Belitung have set up a consortium to secure ore supplies, an industry official told Reuters on Wednesday (5/9/07).

The consortium – Bangka-Belitung Timah Sejahtera – will help secure ore under new export rules issued early this year following a crackdown on illegal mining in the islands last October. The crackdown forced dozens of small-scale smelters to cease business for fear of police raids.

Under the new rules only smelters that have a mining permit, or team up with a mining permit holder, can export the metal used in coating of soft drink cans and solders in computer chips.

"The consortium acquires mining areas, processes mining permits, as well as produces raw material and sells to its members," Ismiyardi, the consortium's commissioner, said by telephone from Pangkal Pinang, the provincial capital of Bangka-Belitung.

The consortium has 4,000-5,000 hectares of tin mining areas with permits. Most of the areas were operated by local miners. "We have obtained permits for 70% of mining areas operated by local miners. We help them to get mining permits so they won't be branded as illegal," he said.

Ismiyardi said the consortium was in the process of obtaining permits for an additional 6,700 hectares.

The consortium members are PT Bangka Putra Karya, CV DS Jaya Abadi, CV Donna Kembara and PT Duta Putra Bangka. Ismiyardi said the four smelters produced a combined 1,600-2,000 tons of tin ingots a month since they obtained export permits in April.

Although the consortium does not control tin exports from members, Ismiyardi said it planned to work with state owned PT Timah and PT Koba Tin to apply quotas on exports.

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