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## POLITICS

### **Indonesia Signs Defense Agreement with China**

Defense Minister Juwono Sudarsono on Wednesday (7/11/07) signed a defense cooperation agreement with China, under which Beijing offered joint production of armaments, Antara reported from Beijing.

The agreement signed with China's defense minister, Cao Gangchuan, and Sudarsono said the following day that Jakarta has no intention of concluding a defense pact with China because it pursues an active and independent foreign policy,

Sudarsono also stated that Indonesia would not necessarily accept the Chinese arms offer. "We are studying the proposal which represents a concrete step in the Strategic Partnership between Indonesian and China," he said, referring to the pact signed by President Susilo Bambang Yudhoyono and Chinese President Hu Jintao in April 2005.

Indonesia has already received offers of weapons from Russia, the Czech Republic and Brazil, in addition to China, he added.

The Chinese offer was very good, he said, but stressed that no decision had been made yet by the Indonesian government. "We have to compare technology and price," he said.

Sudarsono said China was also concerned with the issue of security for oil and gas shipments, 60% of which passed through Indonesian waters. Another 38% of China's general trade passed through his country's waters.

China recognized that Indonesia was in a critical position to ensure security of its trade. "The two countries may be able to conduct cooperation programs in maritime security," Sudarsono said.

Sudarsono also met with Wu Bangguo, chairman of the Standing Committee of the National People's Congress(NPC), China's official news agency Xinhua reported.

Wu said China and Indonesia were neighbors and had traditional friendship, adding that Indonesia is the first nation in the Association of the Southeast Asian Nations (ASEAN) to establish a strategic partnership with China.

"China attaches importance to the relations with Indonesia, and will make joint effort with Indonesia to push forward the strategic partnership," he said.

Wu added that defense cooperation between China and Indonesia has injected new life into bilateral relations and played a positive role promoting regional peace and stability.

### **Bali Bombers Will Face Firing Squad: President**

Three men sentenced to death over their involvement in the 2002 Bali bombings will face a firing squad, President Susilo Bambang Yudhoyono said in an interview aired Thursday (8/11/07).

He told Al Jazeera television that the sentences would be carried out once legal and administrative procedures had been completed.

The Supreme Court recently rejected the final appeals of Imam Samudra, Amrozi and Mukhlas, also known as Ali Ghufron.

"The perpetrators have been sentenced to death and according to our law, that must be implemented," Dr. Yudhoyono told Al Jazeera. "How, when (it will be carried out) very much depends on a set of procedures to be followed," he said.

The President said Indonesia was "very serious" in fighting terrorism, noting that it had captured many militants involved in a series of deadly attacks in recent years.

But, he said, while Indonesia had won some battles it could not claim to have won the war.

## **Election Commission Budget Slashed**

The government will provide only Rp17 trillion (\$1.86 billion) for the 2009 general election, far below the massive budget of Rp47.9 trillion proposed by the General Election Commission (KPU), a minister said on Thursday.

"The budget is lower because there are several components which do not need to be purchased such as ballot boxes, ballots and building maintenance," National Planning Minister Paskah Suzetta was quoted as saying by Antara.

Suzetta said the funding still had to be discussed with the House of Representatives and the KPU. "It still has to be adjusted with the law on elections because it is connected with both legislative and presidential elections," he said.

KPU has been widely criticized for proposing a budget from the central government of some Rp22.3 trillion for the 2009 polls, to be funded through the state budget. An additional Rp25.6 trillion was demanded from regional budgets.

The KPU says a range of elections in new provinces and regencies and the sheer size of the operation require a large budget, but it will work to re-use as much equipment as possible from the 2004 polls.

## **Pertamina Tanker Sale Suspects Grilled**

Former minister for state-owned enterprises Laksamana Sukardi and former president director of state oil and gas company Pertamina Arifin Nawawi were questioned at the Attorney General's Office on Thursday (8/11/07) over alleged misappropriation of funds from the sale of two oil tankers belonging to Pertamina, detik.com reported.

One of Sukardi's lawyers, Alamsyah Hanafiah, said his client is preparing two witnesses from criminal law and business law experts who will help prove that the deal on the tankers was profitable for Pertamina.

Pertamina in June 2004 sold two VLCCs (very large crude carriers) for \$184 million while they were still being built by South Korea's Hyundai Heavy Industries. The sales came under scrutiny amid suspicions that Pertamina didn't hold a proper tender and that the price was far below the actual market value.

## **UN Representative to Investigate Abuses**

A United Nations investigator on torture and other violence, Manfred Nowak, will visit Indonesia from November 10 to 25 at the invitation of the Indonesian government, the UN representative office said on Thursday, Antara reported.

Nowak will be visiting Indonesia to gather information on alleged human right violations. He will present his report, along with conclusions and recommendations, to the Human Rights Council of the United Nations upon his return.

Nowak will meet with alleged victims personally, and hold talks with government officials, including officials at the Ministry of Justice and Human Rights, National Human Rights Commission and representatives of non-government and international organizations. He will also visit penitentiaries where torture is believed to have taken place.

## REGIONS

### **Kelud Calms Down, Krakatau Puts on Show**

The Volcanology and Geological Disaster Mitigation Center (PVMBG) lowered Mt. Kelud's status on Thursday, allowing thousands of people who fled its slopes to return home, while at the other end of Java Anak Krakatau continued to spray sparks and rocks into the atmosphere.

PVMBG said Mt. Kelud no longer appeared poised for an imminent eruption, adding that the historically deadly peak in heavily-populated East Java had released most of its energy but remained on the second highest alert level, Agence France-Presse reported.

It said that villagers who live near the East Java volcano could return home, but it called on them to remain alert and be prepared to leave should the 1,731-meter peak show renewed dangerous activity.

"The energy that has accumulated since 11 September has mostly been spent in an effusive eruption process and has continuously been used in the forming of a lava dome," said Surono, head of the PVMBG.

Further west, scientists said Friday a spectacular eruption of lava, smoke and ash from the volcano that grew from the remains of the infamous Krakatau was not a threat, despite a nearby earthquake.

### **Indonesia Demands WHO Return Bird Flu Samples**

The Health Ministry has criticized the World Health Organization (WHO) for ignoring repeated requests for the return 58 bird flu viruses.

Health Minister Siti Fadilah Supari said Thursday (8/11/07) that the ministry asked for the return of the samples three months ago, but had yet to receive any response.

"We have been demanding the return of our viruses since August, but the WHO has never replied," she was quoted as saying by *The Jakarta Post*.

Supari said Indonesia did not keep a stockpile of seed viruses because international regulations did not allow it. "The regulation is actually detrimental to us, because it obliges the source country to give up all its samples."

If Indonesia were allowed to keep the samples, it could breed the viruses and develop its own vaccines, the minister said. "We keep asking (the WHO) to return the samples because they belong to us. This is for the sake of our country's sovereignty."

Supari said there had yet to be a fair and transparent mechanism for sample sharing between the WHO and source countries, and that the WHO has the authority to send the samples to any country without requesting permission from the source country.

### **W. Sumatra to Build Quake-Resistant Flats**

The Padang regional government in West Sumatra will build quake-resistant flats in the coastal area in 2008, an official said, according to an Antara report.

The multi-story flats will be constructed in state and private university campus areas and shopping centers, as part of efforts to mitigate disasters such as floods, landslides, coastal abrasion and tsunamis, Emzalmi MSi, chairman of the provincial development planning board said on November 4.

"Padang is prone to natural disasters, so the housing should be built soon," Emzalmi said.

Padang received aid for building multi-storied flats from the Housing Ministry and the construction could start some time in 2008, he said.

An earthquake with a magnitude of 7.9 on the Richter scale rocked Bengkulu province at 6.10 PM on September 12, also affecting West Sumatra, Jambi and Riau.

It was followed by an aftershock measuring 7.7 on the Richter scale in Kerinci district, Jambi. The earthquakes killed at least 14 people and injured 23 others.

## ECONOMY

### World Bank Raises Indonesia's Growth Projection

The World Bank continued to be upbeat on Indonesia's economic prospects, with country head Joachim von Amsberg predicting expanding growth in 2008, despite global economic problems.

Von Amsberg said the bank predicted 6.4% growth next year, just above this year's expected figure of 6.3% but below the government's own projection for 2008 of 6.8%.

The prediction is based on stronger inflows of foreign investment to the country, Asia Pulse reported. Growth in investment will hit 10.6% in 2008 from this year's target of 7.7%, while von Amsberg said the country's inflation rate is expected to decline to 6%.

Finance Minister Sri Indrawati Mulyani also played down the effect of external pressures on growth prospects, saying the government hoped to be able to offset any increase in the fuel subsidy caused by higher international oil prices through a combination of higher oil and gas revenue and spending cuts.

The country's budget deficit this year will likely stay within the projected ceiling of Rp58.29 trillion or 1.5% of GDP, she said Tuesday, Thompson Financial reported.

The government was also reported to be considering measures to reduce fuel subsidies, possibly by restricting sales of subsidized fuels to commercial vehicles.

Bank Indonesia (BI) Senior Deputy Governor Miranda Goeltom remained more cautious on growth prospects, saying the bank was concerned over the possible impact of higher oil prices.

But Goeltom told a press conference at an economic seminar in Bali on Thursday that the impact "won't be that big," Dow Jones Newswires reported.

On Tuesday, Bank Indonesia left interest rates on hold, suspending its easing policy for the fourth straight month, partially on concerns that high global oil and commodity prices could stoke domestic inflation in the coming months.

"Like it or not, we will see imported inflation," BI Governor Burhanuddin Abdullah said at the same event Thursday.

The stock market, while buffeted during the week by international trends, ended the week up 2.1% with the Jakarta Stock Exchange composite index at 2,707.67. The rupiah was trading at 9,122/9,128 to the US dollar.

## BUSINESS BRIEFS

### MACROECONOMY

#### Government Foreign Debt to Fall in 2007

Indonesia expects outstanding government-held foreign debt to fall to \$59 billion at the end of 2007 from \$62 billion in 2006 as it seeks to diversify financing sources and rely more on domestic debt, a planning ministry official said on Monday (5/11/07), Reuters reported.

Lukita Tuwo, a deputy planning minister, said the government expected outstanding rupiah-denominated public debt to rise to Rp715 trillion (\$78.31 billion) at the end of 2007 from Rp693 trillion in 2006.

He forecast the government's total debt-to-GDP ratio would continue to fall from a high of around 100% in 2000.

"The amount of total public debt this year is forecast to rise, but the percentage is likely to fall to 37% of gross domestic product (GDP) from 39% in 2006," Tuwo told Reuters.

Planning Minister Paskah Suzetta has said the government would repay more foreign debt in 2007 than it did in 2006 and the repayments would be higher than withdrawals.

Central bank data showed that Indonesia's total foreign loans, including debt owed by corporates, stood at \$125 billion in 2006, well below a peak of \$150 billion in 1998.

## Key Rate Steady as Oil Threatens Inflation

Bank Indonesia (BI) kept its benchmark interest rate unchanged for a fourth month at 8.25% on Tuesday (6/11/07) on concern record oil prices may spur inflation, Bloomberg reported.

Governor Burhanuddin Abdullah, who earlier expressed concern about imported inflation, chose to keep interest rates unchanged to gauge the impact of unprecedented crude oil prices.

Prakriti Sofat, an economist at HSBC Holdings Plc in Singapore, said inflation in Indonesia was proving stubbornly high and external pressures were now increasing the need for caution.

Other analysts and government officials said they expected inflation to be muted in November.

The central bank meanwhile maintained its 2007 inflation forecast of between 5% and 7% and reiterated its 4% to 6% projection for 2008.

Indonesia will spend significantly higher fuel subsidies this year than earlier estimated due to higher crude oil prices. The cost of maintaining subsidies may rise to Rp91 trillion (\$9.95 billion), compared with an initial estimate of Rp55 trillion rupiah, Minister of Energy and Mineral Resources Purnomo Yusgiantoro said Tuesday.

## Consumer Confidence Enters Positive Territory

Bank Indonesia's (BI) consumer confidence index in October showed more respondents were optimistic about the economy than those who are pessimistic, Thomson Financial reported.

It was the first time since December 2006 that the optimistic level was reached. The index rose to 100.2 points in October from 96.7 points in the preceding month.

An index level below 100 indicates pessimism about the the outlook for the economy, while a number above 100 suggests optimism.

The survey showed that both components of the consumer index -- the present conditions index and the consumer expectations index -- rose in October.

The present conditions index, which indicates consumer confidence about current economic conditions compared to six months before, increased to 88.3 points from 85.3 in September.

Meanwhile, the consumer expectations index, which indicates confidence in the economic outlook for the subsequent six months, rose to 112.2 points from 108.1 points.

## INVESTMENT

### Rail Network for Overhaul

The government plans to spend about Rp15.8 trillion (\$1.73 billion), to revamp its state-run rail network, the transport ministry said on Monday (5/11/07).

The funds are expected to come from both the state budget and private investors.

"The revitalization would include railway facilities such as rail track, signaling, bridges," Wendy Aritenang, Director General for Railway Transport at the Transport Ministry, told Reuters.

Aritenang said the figure was still a preliminary government calculation and subject to review.

### Astra-Daihatsu Spends \$132 Mn on Capacity Boost

PT Astra International said Tuesday (6/11/07) its unit PT Astra-Daihatsu Motor (ADM) has expanded the production capacity of its assembly plant in Sunter, North Jakarta to 211,000 cars per year from 140,000, Thomson Financial reported.

Public relations head Julian Warman said ADM spent Rp1.2 trillion (\$132 million) for the capacity expansion. "The capacity expansion is in response to rising demand for vehicles," he said.

The Sunter plant produces the Daihatsu Xenia, also badged as the Toyota Avanza, which is making inroads into both domestic and export markets.

### PHS To Build Oleochemical Factory

The Permata Hijau Sawit (PHS) Group plans to build an oleochemical factory in Medan, North Sumatra with a capacity of 300,000 tons a year, Asia Pulse reported.

The factory to be built in the regency of Labuhan Batu will cost around Rp500 billion (\$55.5 million) and start operations next year, PHS president Robert said.

The factory will be integrated with oil palm plantations, he said, adding the project is prompted by an increase in the export tax on crude palm oil and derivatives including refined bleached deodorized stearin and refined bleached deodorized palm oil.

### Electronics Component Firm Eyes Expansion

Batam-based electronics component maker PT Sat Nusapersada plans to build a new factory and acquire stakes in two other companies next year to expand its operations and meet growing demand for its products, *The Jakarta Post* reported.

President director Abidin told reporters Thursday (8/11/07) that the company would buy a stake in PT SM Engineering and the assets of PT Sat Nusapersada Brothers at a cost of Rp23 billion (around \$2.5 million).

"The acquisitions and the factory building are part of the company's strategy for future growth, which will involve capital strengthening, diversifying customer segmentation, and appointing representatives in Singapore and Japan.

"We will also use advanced technology machinery to produce high-end products," said Abidin on the same day as his company's shares were listed on the Jakarta Stock Exchange for the first time.

The shares closed Thursday at Rp640, almost 10% higher than the opening price of Rp580.

The company expects to more than double profit next year to Rp79 billion from an estimated Rp35 billion this year.

The company sold 30% of its shares on the JSX through an IPO that raised Rp308 billion.

## STATE CONCERNS

### Progress on Air Safety: EU

A European Aviation Safety Agency (EASA) inspection team says there has been progress in improving Indonesia's aviation safety standards, but says more needs to be done, *The Jakarta Post* reported on Saturday (10/11/07).

The team inspected safety procedures over a five-day period ending Friday to see whether a European Union ban on flights into its air space by Indonesian carriers could be lifted.

"They have met with four Indonesian airlines; Garuda Indonesia, Mandala, Premi Air and Air Fast, just now and they asked the four to make some improvements," Director General of Air Transportation at the Transportation Ministry Budhi M. Suyitno told reporters.

Generally, the inspectors had found an improvement, Suyitno said. "They said Indonesian airlines had been on the right track and they were happy to see that we are really taking seriously (the need) to meet higher standards," he said.

### Malaysia to Support on Highway Project

Indonesia and Malaysia signed a memorandum of understanding (MoU) on Friday (9/11/07) under which Malaysia will assist with the Indonesian government's plan for a 1,900 km highway across Java, *The Star* reported from Kuala Lumpur.

The MoU provides for sharing of technical expertise and information on the management of toll roads.

Indonesia's representative Hisnu Pawenang, head of toll roads at the Department of Transportation, said it was understood that Malaysian toll operators would invest in the project.

"It is also hoped that with this MoU, the Malaysian Highway Authority will be able to explore opportunities for construction of tolled highways in Indonesia. We also hope both Malaysia and Indonesia can be role models on the concept of privatization in their countries," Malaysian Works Ministry secretary general Datuk Syed Jamal Syed Jaafar said at the signing ceremony.

### Govt. Launches SME Empowerment Program

The government kicked off a small and medium enterprise empowerment program with the signing of agreements on debt for 12 micro, small and medium enterprises on Tuesday (6/11/07), *Asia Pulse* reported.

The borrowers are part of the 580,000 small and medium enterprises and cooperatives expected to receive loans of up to Rp14.5 trillion (\$1.595 billion) under the government-sponsored easy credit and collateral program.

Lending will be guaranteed by two state-owned credit insurance and financing firms, PT Asuransi Kredit Indonesia and Perum Sarana Pengembangan Usaha, using funds allocated by the government.

The program is the most appropriate way of alleviating poverty and reducing unemployment, President Susilo Bambang Yudhoyono said in a ceremony marking the launch of the program.

## Bulog Cuts Rice Imports: Report

The National Logistics Agency (Bulog) will not go ahead with its plan to import the remaining 106,000 metric tons of rice of the 1.5 million tons it planned for this year, *Bisnis Indonesia* reported.

The state-owned food logistic company has enough domestic rice stocks for this year, Mustafa Abubakar, its president director, was quoted as saying.

Bulog also dropped its plan to import an additional 400,000-500,000 tons of rice on top of the planned 1.5 million tons, he said.

SOEs

## SOE Shake-up to Go Ahead: Minister

Minister for State-Owned Enterprises Sofyan Djalil says the government is going ahead with plans to shrink the number of state-owned enterprises and the number will be cut from 140 to 100 by the end of the year, Reuters reported.

Mergers and sales would continue through 2008 to take the number of companies controlled by the state to 70 or 80, he said.

Djalil told Reuters on Monday (5/11/07) that his plan to set up a large sovereign fund to manage some \$160 billion in assets is already under way.

The state firms in his portfolio, which include oil and gas giant Pertamina and nickel miner PT Aneka Tambang, have earmarked capital expenditure of Rp130 trillion for this year and as much as Rp150 trillion in 2008 to drive economic growth.

Indonesia is keen to set up a sovereign investment agency to improve the performance of state firms.

Djalil added that government intended to allow the SOEs to use profits and funds from share sales for expansion.

The ministry expects to receive total dividends of around Rp23 trillion in 2007 and as much as Rp26 trillion in 2008, Djalil said. "The dividends do not reflect the ability of the companies to earn money. We try not to take out a lot of dividends so the company can grow."

Djalil said the ministry would set up a new holding firm to oversee 14 plantation firms by the end of this year, marking a key step in the overall restructuring process.

He expects to sell shares in the plantation firms through IPOs, but declined to give a specific figure or timeframe.

"I want to be the last minister of SOEs. I believe we can transfer into a super holding company with a CEO," he said.

## Telkom Keen to Expand Abroad

PT Telekomunikasi Indonesia (Telkom), Indonesia's largest telecommunications firm, is very keen to move beyond its home market and make acquisitions abroad to boost profit growth, chairman Tanri Abeng said on Tuesday (6/11/07).

Telkom will target emerging markets such as the Middle East and Southeast Asia, and could also look for small stakes in companies in developed economies, Abeng told Reuters at a financial forum in Beijing.

He also said the company would meet its full-year profit target after a dip in the third quarter, and dismissed an anti-trust investigation of its mobile phone arm as without merit.

"It is in our strategic direction to do acquisitions outside Indonesia, because we're building up our cash reserve and we need to make it more productive," he said.

"In the developing world, we're willing to take a little bit more risk with new investment where we can have superior management and technical expertise, let's say in the Middle East or even in the other ASEAN less developed countries," he added.

Abeng said Telkom would also look to pick up stakes in the range of 5-10% in telecoms firms in developed markets.

## Telkom Subscribers Up 31% at End-Sept

Indonesia's biggest telephone company PT Telekomunikasi Indonesia (Telkom) said Friday (9/11/07) it had 58.8 million fixed-line and cellular subscribers as of end-September, up 31% on an annualized basis, Thomson Financial reported.

Cellular subscribers through its 65%-owned subsidiary PT Telkomsel increased 36.9% to 44.5 million, representing more than 50% market share, Telkom said.

Fixed-line subscribers rose 16% to 14.3 million, consisting of 8.7 million wired and 5.6 million wireless subscribers.

The number of wired subscribers was little changed from a year ago but wireless subscribers rose 53.3% from 3.6 million a year earlier.

Telkom's capital expenditure in the first nine months amounted to Rp10.9 trillion, of which Rp9.6 trillion was for Telkomsel.

## PRIVATE SECTOR

### Tunas Ridean to Issue Bonds

Vehicle dealership and financing firm PT Tunas Ridean plans to issue Rp750 billion (\$82.13 million) worth of bonds next year to support its lending, its president director said Thursday (8/11/07), Reuters reported.

Finance director Calvin Lim said the paper would be divided into four tranches, with maturities ranging from one to four years. Standard Chartered Securities, Danareksa Sekuritas and PT Lautan Dana Securities have been appointed to handle the issue.

"(Our) automotive financing next year is seen around Rp2.4 trillion, up 33% from this year, which is expected to be around Rp1.8 trillion," Lim told reporters, adding that he expected vehicle sales next year to top 500,000 units.

The company also plans to borrow between Rp700-800 billion from banks.

Vehicle sales are expected to top 400,000 units this year, up from 318,904 units in 2006, when the market was depressed by the October 2005 fuel price hikes and high interest rates.

### IPO Plan for Alam Sutera Realty

Property developer PT Alam Sutera Realty said Tuesday (6/11/07) it is planning to sell 3 billion shares, equivalent to 17.7% of its enlarged capital, in an initial public offering in December, Thomson Financial reported.

The company has yet to fix the IPO price for the offer, listed for December 10-12, with listing on the Jakarta Stock Exchange on December 18.

The company will use all the proceeds from the share sale to build a shopping mall in Serpong, on the outskirts of Jakarta.

## BANKS

### Outstanding Loans Jump 21.5%

The banking industry's outstanding loans rose 21.5% to Rp957 trillion in the first nine months of the year compared to the same period last year, Bank Indonesia deputy governor Made Sukada said, according to Thomson Financial.

Sukada said third party funds, or depositors' money, rose 16.4% to Rp1,401 trillion.

The banking industry's gross non-performing loan (NPL) ratio as of end-September fell to 5.35% from 6.31%, while the net NPL ratio fell to 2.6% from 2.84%.

### Panin Bank Looks at BII

PT Pan Indonesia Bank (Bank Panin) said it will buy PT Bank Internasional Indonesia (BII) if the publicly listed bank owned by Singapore's Temasek Group and South Korea's Kookmin Bank is for sale, Asia Pulse reported.

"We will grab all opportunities open", Bank Panin assistant vice president Susanto AH said Thursday (8/11/07).

Bank Panin lost in its bid to acquire the bank from the Indonesian Bank Rescue Agency (IBRA) in 2003. The consortium of Sorak Financial Holdings grouping Temasek and Koomin Bank won the tender.

Temasek might opt to sell its stake in BII in compliance with the Bank Indonesia single presence policy under which no investor is allowed to have controlling stake in more than one bank in the country.

The Temasek Group is majority shareholder in BII, Bank Danamon and DBS Indonesia.

### Bank Ekonomi Plans IPO in December

Bank Ekonomi Raharja, a small-sized lender controlled by the Wings Group, plans to sell shares via an initial public offering in December, its underwriter said on Wednesday (7/11/07), Reuters reported.

Kris Widjojo, president director of brokerage PT Dinamika Usahajaya, told Reuters that the bank was preparing the necessary documents to be submitted to capital market regulators in the near term.

"That's the plan, if everything goes well the IPO would happen in December," Widjojo said, without elaborating.

The *Investor Daily* newspaper reported on Wednesday that the bank was planning to sell 300 million shares in the IPO, but did not give an estimated value.

Bank Ekonomi had total asset of Rp14.79 trillion (\$1.62 billion) as of June, according to central bank data, with outstanding loans of Rp6.66 trillion.

## Texas Pacific Group Aims for BTPN

US financial company Texas Pacific Group has submitted a proposal to Bank Indonesia to acquire 71% of PT Bank Tabungan Pensiunan Nasional (BTPN), Asia Pulse reported.

BTPN president Paulus Wiranata said TPG had already signed a conditional sales purchase agreement in May for the stake.

BTPN finance director Michael Hutabarat said TPG was interested as the bank, which has pensioners as its main market target, has shown improved performance in the past three years.

The bank, which now has a capital of Rp1.1 trillion (\$111 million) plans to launch an initial public offering after the process of acquisition is concluded.

The bank is set to increase its capital to at least Rp10 trillion to acquire the status of a national bank under the Indonesian Banking Architecture.

## POWER

### PLN Mulls Regional Network

Indonesia is studying the potential for integrating its electricity networks on several islands with neighboring Malaysia and Singapore, an executive of the state-run electricity company PLN said.

The power interconnection is likely to be built with Malaysia on Sumatra and Kalimantan, and with Singapore on the industrial island of Batam, said Herman Darnel Ibrahim, director of transmission and power distribution with state-run electricity company PLN.

He said the cross-border power networking would have three options. First, each country shoulders its own infrastructure costs; second, the investment is managed by a holding company in which their respective electricity companies have an equal share; and third, the governments appoint a third party to run the project.

The regional networking is expected to start operations by 2012.

## OIL & GAS

### Oil & Gas Firms to Get Bigger Shares

In another effort to help boost the country's oil production, the government plans to offer companies developing new oil and gas concessions in deep sea and frontier areas more favorable production splits, *The Jakarta Post* reported.

Director General of Oil and Gas Luluk Sumiarso said at the International Investment Summit in Jakarta on Tuesday (6/11/07) that under the planned production sharing scheme, oil and gas companies operating in deep sea and remote areas would receive 49% of the net production, while the government would take 51%.

This offer is far better than the government's current arrangements, under which investors receive 15% and 30%, respectively, from oil and gas production.

"The new production sharing scheme will be given to those willing to develop in oil and gas blocks located in deep sea and remote areas. We offer this new scheme as a form of incentive for them to start operations in areas where there is no supporting infrastructure," Sumiarso said.

Last month, the government invited bids for the development of 26 oil and gas blocks mostly located in deep sea and remote areas such as the Semai oil block in Papua.

In addition to this new production sharing scheme, the government also plans to apply the new cost recovery system in the new contracts, Energy and Mineral Resources Ministry Purnomo Yusgiantoro said.

"We will clarify some vague areas to avoid misinterpretation of the items that are recoverable. Until now, we are still discussing some issues. Even though we have agreed that the cost for corporate social responsibility is no longer included in the recoverable items," he said.

Under the production sharing scheme, oil and gas contractors are allowed to recover their operating costs. But some operators have included spending on activities not related to production, such corporate social responsibility projects.

Yusgiantoro said the changes in the cost recovery assessment would not affect existing production sharing contracts.

## Indonesia Offers 45% Split on CBM Profits

Indonesia will offer investors looking at developing coal bed methane a 45% split compared with 30-35% usually offered in the gas sector.

Though CBM falls under the oil and gas law enacted in 2001, the government plans to offer investors a higher percentage in production sharing contracts in a bid to attract more investment, a senior minister said Tuesday (6/11/07), *Platts Commodity News* reported.

"The split is higher than in the gas sector as it's difficult to produce CBM. It takes time for investors to get returns," energy and mines minister Purnomo Yusgiantoro told reporters.

CBM is a methane-rich gas formed when plant material is converted into coal. Total CBM resources in Indonesia are estimated at around 450 Tcf, distributed across 11 coal basins. South Sumatra and East Kalimantan are the major coal-producing provinces.

Indonesia is boosting its search for alternative sources of energy, including CBM, in a bid to reduce its dependence on oil.

Meanwhile, Oil and Gas Director General at the Mines and Energy Ministry, Luluk Sumiarso, said the government would sign its first CBM contract with Medco Energi Internasional and local company Ephindo within a month. "Medco and Ephindo have agreed to the split we offered," Sumiarso said.

Another 40 companies have expressed interest in developing CBM in Indonesia, he added. Shell, Pertamina and state-owned gas transmission and distribution firm Perusahaan Gas Negara have also expressed interest, officials said earlier.

Meanwhile, Ephindo president and CEO Sammy Hamzah confirmed that the company and its partner would sign the CBM contract. "I think the split of 45% is favorable to investors," he added.

Both companies plan to invest \$5 million to \$10 million in a pilot project in Musi Banyuasin, South Sumatra where Medco will be the operator, Hamzah said, though he declined to give further details.

## Medco Eyes 2,000 b/d Oil Output From Block A

Oil and gas company Medco Energi Internasional expects its block A in Nanggroe Aceh Darussalam province to produce a minimum 2,000 b/d of crude in 2008, a company official said Thursday (8/11/07).

"Block A will produce at least 2,000 b/d of oil in the fourth quarter of 2008," the president director of Medco E&P Indonesia Lukman Mahfoedz told *Platts Commodity News*.

The company plans to start drilling around 20 development wells at the block in the near future, he added.

Medco is the operator of Block A with a 41.67% interest. The remaining stakes are held by Premier Oil (41.66%) and Japex (16.67%).

The investment required to develop Block A is estimated at \$600 million, Mahfoedz said in late October. Block A will produce mainly gas. Medco has estimated that the block to start its first gas production by 2010.

The company signed a gas sales agreement with Indonesian fertilizer producer Pupuk Iskandar Muda on October 30 to supply around 106,000 Mcf/day of gas from block A for seven years starting in 2010. The contract is worth \$1.043 billion.

### **Pendalian-3 Full Of Potential: Oilex**

Oilex Ltd said preliminary tests at Pendalian-3 well in West Kampar PSC, indicate a maximum flow potential of 1,285 barrels per day and a production rate of around 700-900 barrels of oil per day, Thomson Financial reported on Friday (9/11/07).

The oil company said it will conduct further analysis of down-hole data to confirm these preliminary results.

## **MINING**

### **Indonesia Looks at Tin Output Quota**

Indonesia, the world's second-biggest tin producer after China, plans to introduce a tin output quota of 90,000-100,000 tons for 2008 in an attempt to support prices of the metal, a senior official said on Wednesday (7/11/07).

Metal traders have been closely watching supplies from Indonesia, where smuggling of tin from Bangka Belitung was blamed for causing a glut in the global market and for a plunge in the tin price in 2002.

M.S. Marpaung, director of coal and minerals at the mines and energy ministry, told Reuters that the government would introduce a tin output quota, and not a tin export quota, in order to maintain a high price.

"Now, we produce 100,000 tons of tin (a year), so we are considering a tin output quota based on that," Marpaung said, adding that the quote would be introduced next year.

The official said that the government had consulted the International Tin Research Institute (ITRI) regarding the quota, and that Indonesia's domestic demand would be fulfilled.

Tin hit a record high of \$17,100 a ton on Tuesday on worries about supplies from Indonesia. "When customers start trying to find other minerals to substitute for tin due to high prices, we can lower the price," Marpaung added.

The government is concerned that the high price of tin could encourage other countries to start to dig out their resources, potentially creating a glut.

Simon Sembiring, Director General for Coal and Mineral Development at the Energy Ministry, said Wednesday (7/11/07) that Congo and New Zealand had reserves that could be exploited.

"The price (of tin) should not be too high and should not stay too long (at current levels)," he said.

Tin prices last week hit a fresh high of \$17,100 per ton on the London Metal Exchange, a level not seen since 1989. "At \$15,000, I think that is already a good price for tin," Sembiring told reporters.

To control tin exports, Indonesia introduced rules earlier this year under which smelters are only allowed to export refined tin with a minimum purity of 99.85% and with proof of royalty payment.

Meanwhile on Friday, tin producer Timah forecast 2008 tin output at 55,000 to 60,000 tons, up from this year's estimated of 54,000 to 55,000 tons, its supervisory board chairman said. In the first nine months of this year, Timah's tin output rose 49% to 47,000 tons. Timah normally exports more than 95% of its tin output.

## **Govt. To Purchase 7% Stake In Newmont NNT**

Minister for State Enterprises Sofyan Djalil said on Tuesday (6/11/07) the government had decided to purchase a 7% stake in PT Newmont Nusa Tenggara (NNT) worth \$282 million, Asia Pulse reported.

Previously, state-owned mining company PT Aneka Tambang (Antam) had expressed interest in buying PT NNT stock. The minister said the government would purchase the stake directly or through one of the state-owned companies.

"The purchase of a share by the government should not always be done directly by the government but it could also be done through a state enterprise," he said.

He said he had not yet decided any other state companies than Antam to represent the government in the purchase of NNT shares.

Based on standing rules, the offer has to be made to the central government first, and if the central government refuses it, then it should be offered to the regional government. If the regional government also refuses it, the shares would be offered to national private companies.

Indonesia and Newmont signed a work contract worth \$1.8 billion on mining exploration in Batu Hijau area in West Sumba district on December 1986. The Batu Hijau mining field is estimated to sit on 6.3 billion pound copper and 7.2 million ounces of gold deposits.

Based on the working contract agreement, PT NNT will divest 51% of its shares in stages until 2010. 80% of PT NNT's shares are owned by Nusa Tenggara Partnership and 20% others by PT Pukuafu Indah Indonesia.

Some 56.25% of Nusa Tenggara Partnership are owned by Newmont Indonesia Limited and 43.75% by Nusa Tenggara Mining Corporation.

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