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REPUBLIC OF INDONESIA

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POLITICS

Suharto Suit Reaches Court

Judges on Thursday (9/8/07) told state prosecutors and lawyers for former president Suharto to try to reach a settlement among them in a civil lawsuit aimed at recovering some of the millions of dollars he allegedly stole from the state during his rule, the Associated Press reported.

The court was in session for just 20 minutes before the judges handed down instructions for the lawyers to reach a settlement.

Indonesian law requires a good-faith effort at settlement before proceeding in civil cases. The court gave the parties one month to reach a deal before moving ahead with the case.

The lawsuit follows an unsuccessful attempt in 2000 to launch criminal proceedings against Suharto over alleged corruption. Suharto's lawyers at that time prevailed, arguing the 86-year-old was too sick to stand trial.

The current suit, which seeks \$1.54 billion in damages and missing funds, alleges money was channeled from the Central Bank through state-owned banks to a Suharto-headed fund called Yayasan Supersemar. The fund was said to finance education scholarships, but the money was never accounted for.

Hunt Widens for State Assets

Indonesia is using all possible international mechanisms to bring back billions of dollars of its assets moved out of the country by corrupt businesspeople, *The Jakarta Post* reported on Thursday (9/8/07).

Foreign Ministry director for international treaties and legal affairs Arief Havas Oegroseno said Indonesia is using all of the mechanisms under the UN Convention Against Corruption to bring the corrupt fugitives to justice and repatriate the money they stole.

Those mechanisms include civil litigation, asset confiscation without criminal conviction and mutual legal assistance.

"Many successful efforts have been made in bringing back their money using civil litigation," he said. "We are now trying to confiscate assets abroad without having to have criminal convictions, as well as widening our mutual assistance cooperation with more countries," he said.

Oegroseno said Indonesia was close to finishing mutual legal assistance or extradition agreements with the US, Hong Kong and China.

"We want to have agreements with countries whose cities are known as financial centers," he said. "Hong Kong is the Asian financial center while China has Shanghai, and of course the US ... We have also discussed similar agreements with the Netherlands, the United Arab Emirates and Switzerland. This way, we will have access if the corruptors keep their money there."

Indonesia is hosting numerous international conferences on asset recovery, including the second session of the conference of the state parties to the UN Convention Against Corruption in Bali early next year.

The country plans to propose a mechanism requiring the disclosure of information without requests, as well as an international fund to help developing countries finance legal efforts to retrieve stolen assets.

"Our prime difficulty is to locate where and how much of our money is (there). With this

mechanism, parties to the convention will automatically inform us about an account allegedly used for illegal money," Oegoseno said.

Indonesia is working on bringing back as much as \$16 billion of state money, much of it Bank Indonesia liquidity support funds.

It is also tracking down money belonging to former president Suharto and his family, including youngest son Hutomo "Tommy" Mandala Putra.

Former Executives Indicted in the Murder of Munir

Police on Friday (10/8/07) transferred two former Garuda airline executives accused of involvement in the murder of a top activist to the custody of the attorney general, Agence France-Presse reported.

Munir Said Thalib was poisoned as he traveled from Indonesia to the Netherlands in September 2004. The only person jailed in connection with his death, former Garuda pilot Pollycarpus Priyanto, had his conviction quashed last year.

The Garuda pair are suspected of "assisting or giving the opportunity to (the murder suspect) to carry out a crime with the intention of taking someone's life," National Police spokesman Bambang Kuncoko told reporters.

Police submitted their dossiers on the two, Indra Setiawan and Rohainil Aini, who were arrested in April, to the attorney general's office on Tuesday, Kuncoko said. Aini is also accused of falsifying documents.

According to the police, they should be charged by state prosecutors under the same article in the criminal code that covers premeditated murder, meaning they could face the death penalty.

REGIONS

Jakarta Election a Success: NGOs

An exit poll of Jakarta's gubernatorial election on August 8 carried out by the Institute of Research, Education and Information on Social and Economic Affairs (LP3ES) found that 67% of 588 interviewees who voted for the winner, Fauzi Bowo, did so based on one or more of two main reasons: his policies and his perceived experience as a candidate.

The exit poll was sponsored by the US-based National Democratic Institute, whose Indonesia director Paul Rowland attended a joint conference with LP3ES on Thursday.

The Prosperous Justice Party (PKS), which backed the rival candidate, Adang Daradjatun, admitted defeat after a comprehensive count by the party at 90% of the 11,256 polling stations showed a win by rival Fauzi Bowo, *The Jakarta Post* reported.

The Thursday (9/8/07) morning result showed Bowo with 57% of the 3.1 million counted ballots while PKS candidate Daradjatun attained 43%.

The chairman of the Jakarta chapter of the PKS, Triwisaksana, congratulated Bowo for the result, saying the party strengthened its commitment to supporting him and his running mate Prijanto when they take over from Governor Sutiyoso later this year.

Indonesia Waits for Fair Bird Flu Sample System

Indonesia will not share bird flu samples with the UN's health body until it is guaranteed access to affordable medicines to treat victims of the deadly virus, a government official said Thursday (9/8/07).

Lily Sulistyowati, a spokeswoman from the Health Ministry, said authorities were awaiting a new mechanism that would put new guidelines on sample sharing in place.

Indonesia wanted a system that was transparent and allowed developing countries affordable access to medicine supplies to treat bird flu, she said. This was because "we had difficulties when we wanted to buy Tamiflu," she told Agence France-Presse, referring to the main drug used to treat victims of the virus.

"We could not get it directly. The WHO told us that we had to queue up with other countries, developed countries, where they don't really have any cases."

Indonesia stopped sharing virus samples with foreign laboratories in December 2006, saying it feared multinational drug companies could use them to develop vaccines that were not affordable for poor countries.

Negotiations are under way to reach an agreement on detailed international virus sharing guidelines at a special meeting of the WHO's member states in November. The spokeswoman said the previous mechanism had effectively been abolished by the WHO in May.

ECONOMY

Market Hopefully Will Stabilize: Boediono

Indonesia's senior economics minister said Friday (10/8/07) that he hoped the global economy to overcome jitters following woes in the US subprime credit sector as fundamentals were strong, Agence France-Presse reported.

"I am still hopeful that this is something that we can get through because global economic fundamentals are strong. This is just about short-term volatility," coordinating minister Boediono told reporters.

The central bank said the banking system should be safe from any direct fallout from US subprime mortgage market woes as local banks do not have any exposure to it.

"I don't see any direct impact from the subprime problem in the US in our banking system," because no domestic institution invests in the troubled sector, research director Halim Alamsyah said.

He said losses in local equities and a sell off in Bank Indonesia Certificates (SBIs) appear to be partially due to some overseas institutional investors who require funds to meet overseas obligations. "But I think this is temporary. They will come back as our economy remains strong," he said.

The bank in its monthly meeting to decide on its benchmark rate left the rate steady at 8.25%, a move welcomed by analysts who said a lower rate could have risked a capital outflow.

Jakarta Stock Exchange President Erry Firmansyah said he has not seen any sign of an outflow of capital from the country.

The optimism was shared by other leading financial analysts and economists including Danareksa Research Institute, Standard Chartered Bank and Citigroup, Asia Pulse reported.

On the investment front, French automaker Renault said it would go ahead with plans to invest \$600 million in a vehicle plant. *Bisnis Indonesia* quoted head of the Investment Board (BKPM), M. Lutfi, as saying Renault had sent a letter to his office asking for assistance in finding land.

South Korea's Hana Bank said Monday it has acquired a majority stake in PT Bank Bintang Manunggal, a tiny Indonesian bank with some \$3.8 million in capital and \$30 million in assets, according to *The Korea Times*.

Korea's fourth-largest lender plans to grow the acquisition into one of the top 20 banks in Indonesia through mergers with other small-sized lenders and by expanding business line-ups.

Bank lending jumped 19.4% in June, according to central bank data, with a similar rise expected in July, Reuters reported.

BI also said in a statement that net non-performing loans declined to 2.9% in June from 3.1% a month earlier, well below the central bank's guidance figure of 5%.

"Continuous implementation of government infrastructure projects and private sector projects will accelerate loan demand in the banking sector," Bank Indonesia said.

ECONOMY

BI Holds Benchmark Rate Steady

Bank Indonesia (BI) left its benchmark interest rate unchanged on Tuesday (7/8/07), in line with expectations, as financial markets remain volatile and inflation exceeded market forecasts in July.

Domestic financial markets, hit hard in recent days by the fallout from US subprime mortgage problems, barely moved after the central bank's decision to stick at 8.25%, Reuters reported.

"Although BI's comments suggest that inflation concern is one of the key reasons for a pause, I think recent market developments do play a part in influencing the decision," said Christy Tan, a Singapore-based currency strategist with Bank of America, who had forecast a cut.

As inflation has steadily dropped, the central bank has cut its BI rate 13 times from a high of 12.75% in April last year to 8.25% in July.

Analysts expect one more cut by the end of the year, taking the rate to 8%, as inflation is likely to remain within the central bank's forecasts and as policy makers seek to boost economic growth.

Minister Hopes to Hit Export Target

Indonesia may achieve its export growth target this year despite a global financial market downturn, Trade Minister Mari Pangestu said Monday (6/8/07).

"Until this point (in 2007) growth (in exports) has been around 15%, (and) hopefully it will remain there until the end of the year because commodity prices are still relatively high," Pangestu was quoted as saying by Dow Jones Newswires.

The government targets 14.5% export growth in export value over 2007.

INVESTMENT

Renault to Invest \$600m

French carmaker Renault SA is set to go ahead with plans to invest \$600 million on a new vehicle plant in Indonesia, *Bisnis Indonesia* reported on Friday (10/8/07).

The newspaper cited Investment Coordinating Board chairman M Lutfi as saying Renault had sent his office a letter, requesting government assistance in finding suitable land and in setting up the necessary infrastructure.

"We and the Industry Department are currently working on the package, including asking the governor of Central Java to prepare the area since one of the locations that they are considering is Kendal," Lutfi said.

In June, Lutfi was reported by the same newspaper as saying that Renault's plant would have a capacity to produce 150,000 to 200,000 vehicles a year, to cater to the domestic and export markets.

He said an agreement would be signed in September when President Susilo Bambang Yudhoyono visits France.

Govt. to Hike Toll Road Fees

The government plans to hike toll road fees across the country on August 23 by 20% on average as it seeks to encourage more investment in the sector, an official said on Wednesday (8/8/07).

Toll tariff adjustments affect the cost of transportation, which has a 14% weight in the consumer price index (CPI) calculation.

The last toll road adjustment was in 2005 after the government passed a law in 2004 which required authorities to review tariffs every two years. The law was aimed at raising confidence among investors intending to invest in toll roads.

The government has also allocated funds from the state budget to help secure land for toll roads in a bid to help investors speed up toll road construction.

The government launched a 1,000-km toll road project at the end of 2004 running across Java island, home to half of Indonesia's 234 million people and where most of its factories are located.

The Rp52 trillion (\$5.58 billion) toll road project, due to be completed by 2010, is aimed at stimulating economic growth.

Incentives to Lure Investors

The government is drawing up a package of incentives, including easier licensing procedures and breaks, to help lure investors including more Koreans to the country. Indonesia is already host to some 1,100 Korean businesses, an investment forum was told Monday (6/8/07).

Chairman of the Investment Coordinating Board (BKPM) M Lutfi said at the opening day of the Integrated Investment Promotion, that the planned incentives would include income tax cuts and other forms of tax incentives, such as tax allowances.

Those fiscal incentives will come on top of more lenient administrative and licensing requirements to be soon introduced by the Government, he was quoted as saying by *The Jakarta Post*.

While details remained sketchy, as discussions with relevant departments have not been finalized, Lutfi said the plan should show that Indonesia is willing to go the extra mile in luring more investors from South Korea, already Indonesia's fifth largest investor by country.

According to BKPM data, foreign direct investment (FDI) approval from South Korea in the first semester of the year reached \$203.2 million, making it the fifth largest investor by country in Indonesia after the UK, Taiwan, Singapore and Japan.

Overall, from 1967 to the end of July, Korean investments in Indonesia were valued at slightly more than \$12.6 billion with a total of 2,977 projects.

STATE CONCERNS

Japan to Sign Economic Pact

The Japanese government decided Friday (10/8/07) to sign an economic partnership agreement with Indonesia on August 20 in Jakarta, following completion of formal discussions in June, the Ministry of Economy Trade and Industry said, according to *Platts Commodity News*.

Japanese Prime Minister Shinzo Abe is scheduled to sign the EPA with President Susilo Bambang Yudhoyono during his scheduled visit to Indonesia over August 19-21.

With the signing, the EPA could come into effect as early as next spring if it is approved at the end of the year during Japan's extraordinary Diet session, a Japanese government source said.

Consumer Confidence Moves Upward

The consumer confidence index increased slightly to 96.3 points in July from 95.8 in June, largely due to a drop in the number of respondents pessimistic about job creation prospects in the next six months, a Bank Indonesia (BI) survey showed.

An index level below 100 indicates pessimism about the economic outlook among those polled while above 100 suggests optimism. The index last exceeded 100 in November 2006.

BI said the two components of the index -- present condition and consumer expectations -- both improved in July, Thomson Financial reported.

The present condition index, which indicates the level of consumer confidence in current economic conditions, gained to 85.5 points from 84.9 in June.

Meanwhile, the consumer expectation index, that shows confidence in economic prospects for the next six months, rose to 107.2 from 106.6.

Govt. to Send 1m Workers Abroad in 2008

The National Manpower Recruitment Agency said it hopes to send a million Indonesian workers abroad in 2008.

The agency has set a target to send 3.5 million Indonesians to work in various fields abroad in the 2005-2009 period, Antara reported on Thursday (9/8/07).

Based on official records of Indonesian representative offices abroad, 625,113 jobs are open in formal sectors in various countries, Hidayat said.

Indonesian workers remit billions of US dollars annually to the country. This year remittance is forecast to reach \$9 billion, up from \$3.5 billion last year. In the first half of the year, remittance by more than 350,000 workers in 23 countries already reached \$6.5 billion, Hidayat said earlier.

SOEs

Be More Competitive, State Firms Told

State-owned firms must increase their competitiveness and efficiency to become pillars of the economy, State Minister for State Enterprises Sofyan Djalil said.

Indonesia has 139 state-owned enterprises (SOEs) with assets valued at Rp1,450 trillion.

The minister said if the companies' potentials are developed well, they could become a formidable economic force, Antara reported on Monday (6/8/07). He encouraged the SOEs to make improvements and breakthroughs with a view to expanding their businesses.

SOEs, especially those engaged in fertilizer production and trade, are currently facing problems because of their aging factories. More than 20 fertilizer factories in the country are more than 20 years old.

Factories built before 1983 are still using old technology, which consumes much gas, making it difficult for the companies to compete with foreign fertilizer manufacturers that use energy-efficient technology.

SOEs in other sectors also needed restructuring, such as those operating in plantations and pharmaceuticals.

Telkom Set to Expand Broadband

State telecommunications company PT Telkom will invest more in high-speed Internet services to counter market share gains by new entrants in the cellular industry, including Hong Kong billionaire Li Ka-shing.

The company will spend \$50 million this year to upgrade its network, president director Rinaldi Firmansyah said in a recent interview, according to the *International Herald Tribune*. He declined to provide a comparative number or a time frame for the investment.

"Competition in the cellular business" is a concern, he said. "What we'd like to do is increase broadband sales."

Telkom expects to raise the number of its high-speed Internet users 13-fold to 2 million by 2010, he said. The data services unit's sales tripled in the first half. By comparison, the mobile business rose 21% as competition drove down the costs of voice calls to as little as Rp150 (\$0.02) a minute.

The number of people using Internet services in the country is forecast to rise 72% to 43 million by 2009, according the Indonesian Internet Service Provider Association. The country has a population of about 234 million people.

Telkom's second-quarter profit rose 52% from a year earlier to Rp3.58 trillion, with the bulk of the gain coming from its cellphone business, as sales expanded 24% to Rp29.8 trillion.

First-half revenue from data services, comprising mostly high-speed Internet, tripled to Rp1.11 trillion. Revenue from cellphone services climbed to Rp11.4 trillion, accounting for about 38% of Telkom's sales.

Semen Gresik to Maintain Domestic Lead

State-owned cement producer PT Semen Gresik said it is set to maintain its lead in domestic sales now that it has a market share of 46%.

Expansion in the export market will depend on surplus in the domestic market, company president Dwi Sutjipto said, according to an Antara report on Thursday (9/8/07).

He said the company has exported only up to 10% of its production and exports have been made only to South Asian countries and Africa. He predicted that this year, the company would chalk up a 7.5% increase in sales in the domestic market.

This year, Semen Gresik's production capacity is estimated to increase from 200,000 tons to 17.1 million tons, including from its subsidiaries PT Semen Padang in West Sumatra and PT Semen Tonasa in South Sulawesi.

The company plans to build two new factories each with an annual production capacity of 2.5 million tons to be operational in 2011.

PRI VATE SECTOR

Indosat Plans Rp1t Rupiah Bond Issue

The country's second largest telecommunications firm, PT Indosat, plans a Rp1 trillion (\$107.6 million) bond issue this year to finance capital expenditure, a senior company executive said on Tuesday (7/8/07).

Indosat, 40% owned by Singapore's ST Telemedia, had not decided the specific timing for the bond launch, Wong Heang Tuck, Indosat's finance director told Reuters.

The company is planning to spend \$1 billion this year to expand its network and infrastructures in a bid to get 5 million to 6 million new users in 2007. Earlier this year, the company raised Rp3 trillion in both conventional and shariah-compliant paper.

Indosat has mandated PT Andalan Artha Advisindo and PT Danareksa Sekuritas to handle the issue. The two brokerage firms also acted on behalf of Indosat in a previous bond issue.

Indosat's mobile phone subscribers reached 20 million in the first half of 2007, up from 16.7 million at the end of 2006.

GM Mulls Indonesia Production Base

General Motors Corp (GM) is considering using either Indonesia or Malaysia as its base to produce and market its products for Southeast Asian markets, the company's president for Southeast Asia Operations, Stephen Carlisle said Tuesday (7/8/07). "We will make a decision within 12 months," Carlisle said.

The plan to build the production base has been developed to meet an expected boom in car sales in the ASEAN region, from 3 million units to 10 million units, over the next 10 years, he added.

He did not reveal how much GM would spend in the region.

Last week, Carlisle told Dow Jones Newswires the company was "looking to expand GM's presence in Malaysia and Indonesia, possibly even in manufacturing."

BANKS

BI Plans New Ruling to Up Lending

The central bank is planning a new regulation for the banking industry to further promote lending, which has improved in the first half of the year from last year's credit slump.

The planned regulation will in particular promote "indirect lending" by allowing banks to count portfolio investments such as corporate bonds as regular lending, Bank Indonesia (BI) spokesman Budi Mulya said Tuesday (7/8/07), according to *The Jakarta Post*.

He said that with the new regulation, banks' portfolio investments would be treated as commercial lending, so they would be included in the calculation of loan-to-deposit ratios (LDRs).

The regulation is also expected to support Indonesia's recent efforts to deepen its financial markets, with banks likely to disburse more funds through the markets.

"This will in turn also spur the real sector, as companies can then invest funds raised from issued bonds bought up more by banks for expansion and further investments," Mulya said. "Meanwhile, for BI, it will also facilitate our efforts to consolidate the banking industry."

BI Deputy Governor Siti C Fadrijah earlier said that as well as the new regulation, which could be issued as soon as next month, the central bank intended to push further industry consolidation by 2010 through bank mergers and acquisitions.

The central bank's latest assessment of the sector's lending performance shows that total outstanding loans as of the end of June picked up by Rp38.5 trillion (\$4.2 billion), or 4.4%, from May.

This is the highest lending growth so far this year, with BI noting that lending is continuing to grow by a preliminary Rp10.5 trillion in July.

The banking industry's monthly bad loan level also showed improvement, with the gross NPL decreasing to 6.4% from 6.7%, and the net NPL level to 2.9% from 3.1%.

Hana Bank Acquires Minor Player

Korea's fourth largest lender, Hana Bank said Monday (6/8/07) it has acquired a majority stake in Bank Bintang Manunggal, a tiny Indonesian bank with some \$3.8 million in capital and \$30 million in assets.

Hana signed a contract to buy a 60% stake in the Indonesian lender for 3 billion won (\$3.3 million), and the deal is awaiting approval from the country's central bank, Hana said, according to *The Korea Times*.

Bank Indonesia (BI) Deputy Governor Siti Fadrijah confirmed late Monday that Hana Bank has informed the central bank of its wish to buy Bank Bintang Manunggal. "I think they have signed a memorandum of understanding," she was quoted as saying by Dow Jones Newswires.

Hana plans to grow Bank Bintang Manunggal into one of the top 20 banks in Indonesia through mergers with other small-sized lenders and by expanding business line-ups. Bank Bintang Manunggal is now one of the smallest banks in Indonesia with just a few branches, Hana officials said.

"As we still have no branches or subsidiaries in Indonesia, our acquisition of Bank Bingtang Manunggal is very significant for our business in Southeast Asian countries," a Hana official said.

"We plan to set up more operations in Singapore and Indonesia to find more business opportunities in Southeast Asia."

Singapore Investor Set to Take Over Bank

An investor from Singapore is almost certain to take over Bank Sri Partha, whose shareholders have failed to inject fresh funds needed to increase its capital to the minimum level of Rp80 billion (\$8.9 billion) by the end of the year.

As of May, the bank had a capital of only Rp50.5 billion, *The Investor Daily* reported Tuesday (7/8/07), quoting a bank executive, who declined to name the investor.

A number of other investors from Singapore already own stakes in Indonesian banks such as Temasek Holding with stakes in Bank Danamon and Bank Internasional Indonesia; OCBC in Bank NISP; and UOB in Bank UOB Buana Indonesia.

BNI Offering to be Oversubscribed

Bank Negara Indonesia (BNI) expects its secondary offering of 3.47 billion shares at Rp2,050 each to be oversubscribed, the bank's president Sigit Pramono said Thursday (9/8/07).

The secondary offering of BNI shares was held from Tuesday (7/8/07) to Friday. The shares will be listed on the Jakarta and Surabaya stock exchanges on August 13.

After the secondary offering, the government's holding in the bank will be reduced to 71.84% of the class-C shares and 1.42% of the class-B shares. The public will hold 26.27% of the class-C shares and 0.47% of the class-B shares.

POWER

PLN Signs Power Project Contracts

After three months of delays due to a lack of government guarantees for the investors, state-owned electricity company PLN finally signed Tuesday (7/8/07) contracts with three Chinese consortiums for the construction of three coal-fired power plants, *The Jakarta Post* reported.

The signing of the contracts followed Finance Minister Sri Mulyani Indrawati's assurance Monday that the government would fully guarantee the financing of PLN's crash program to provide an additional 10,000 MW of power by the end of 2009.

Speaking to reporters after the signing ceremony, Energy and Mineral Resources Minister Purnomo Yusgiantoro said the signing of the contracts meant that 60% of the contracts for the the construction of power plants to be built under the crash program had been concluded.

He said that the remaining 40% of contracts, mostly for the construction of power plants outside Java, would be signed in September this year.

Under Tuesday's contracts, a Chinese consortium of Shanghai Electric Corp Ltd and Dalle Energy will construct a 945 MW coal-fired power plant in Teluk Naga, Banten, at a cost of \$547.4 million in foreign exchange and Rp1.89 trillion in local currency (about \$207.6 million).

A consortium of Dongfang Electric Corp and Dalle Energy will build a 630 MW coal-fired power plant in Pacitan, East Java at \$344.9 million and Rp1.23 trillion, while a consortium of Shanghai Electric Corp Ltd and Maxima Infrastructure will establish a 1,050 MW coal-fired power plant in Pelabuhan Ratu, West Java at \$566.9 million and Rp2,205 trillion.

In March, PLN signed contracts for five coal-fired power plants, all in Java, with a total capacity of 3,300 MW.

Purnomo said the operation of the new coal-fired power plants would significantly reduce the government subsidy for electricity utilization, reduce dependence on oil-based-fuel and increase the country's electrification rate, which now stood at 56%.

Currently, PLN has a total installed capacity of 24,417 MW, or 85.5% of the total national power generating capacity. The remainder is provided by independent power producers (3,450 MW), and privately owned companies operating power plants for their own industrial activities (746 MW).

Beside the contracts with the three consortiums, PLN also signed on Tuesday a letter of intent with China National Machinery Industry Corporation (Sinomach), for the construction of Tanjung Awar Awar plant and several long-term contracts with coal miners to supply a total of 5.5 million tons of low-rank coal per year.

OIL & GAS

Energy Majors Eyeing E. Java LPG Storage Plant

South Korean oil company SK Energy Corp, US-based ConocoPhillips, Malaysia's state oil and gas firm Petronas and BP are vying to win the right to construct a liquefied petroleum gas (LPG) storage facility in East Java, *The Jakarta Post* reported.

The facility will have a total capacity of 120,000 tons of LPG, Hanung Budya, state oil and gas firm PT Pertamina's deputy director for marketing and trading, said Thursday (9/8/07).

Hanung added that the companies had submitted their proposals to the company, which has been appointed under the government's program to gradually replace the use of kerosene with LPG as the sole distributor and buyer of LPG. "The investment in the construction of the plant will all be the responsibility of the selected company. We will just rent out the space," Hanung said.

"However, we may propose that we get a 15% to 20% share of the facility after five years," he said, adding that the company was still evaluating the bids as part of a process that it expected to be finalized within a month. He gave no details of the size of the investment.

Pertamina has said that the facility, which is expected to come onstream by 2009, would either be built in Gresik or Banyuwangi.

The government is promoting the use of LPG to gradually replace heavily subsidized kerosene. Under the conversion program, up to 1 million kiloliters of kerosene are expected to be replaced by LPG by the end of this year. Kerosene consumption for this year is expected to reach 70 million kl.

Husky, Pertamina, Medco Win \$3.77b in Contracts

Canadian oil company Husky Oil Ltd., state-owned oil and gas company Pertamina and PT Medco Exploration and Production (E&P) on Tuesday (7/8/07) signed contracts worth \$3.77 billion to provide gas to distributors and industrial users, *The Jakarta Post* reported.

Chairman of the upstream oil and gas regulatory agency, BP Migas, Kardaya Warnika, said after the signing that the agreements would help overcome the acute gas shortages that have hit many industries in West and East Java.

Eddy Purwanto, the deputy chairman of the agency, said Husky, Pertamina and Medco would deliver up to 934.9 trillion British thermal units (tbtu) of gas to a number of industrial players in West and East Java, in contracts that would last between four months and 20 years.

Under the contracts, Pertamina will supply gas to several factories including fertilizer producer PT Pupuk Kujang in West Java and steel company PT Krakatau Steel in Banten. The company will deliver gas to state-owned power firm PLN to fire up its power plants in Gresik, East Java, in a six-year contract.

Pertamina EP marketing manager for oil and gas Irwan Darmadi said the gas would be supplied from its Subang and Elbaragi blocks in West Java. He said the gas would be sold for between \$3.70 and \$5 per million British thermal units (mmbtu).

Husky Oil also signed three heads of agreement (HOAs) with state-owned gas distributor PGN and two other gas distributors -- PT Inti Alasindo Energy (IAE) and PT Parna Raya (PR).

Under the agreements it will provide up to 110 million cubic feet a day of gas over 20 years beginning in 2011. "We will get 30 million cubic feet per day at a price of \$4.20 per mmbtu," PGN president director Sutikno told the *Post*.

In addition, Medco signed an agreement to deliver gas to fertilizer company PT Pupuk Sriwijaya (Pusri) in South Sumatra for 11 years, starting early next year, at a price of \$3 per mmbtu, Medco E&P president director Lukman Mahfoedz said.

PGN Launches Gas Supply to Sumatra-West Java

Industries in West Java, especially in the Bekasi and Cikarang regions, are planning to increase their production capacity after state gas firm PT PGN began pumping gas through its South Sumatra-West Java (SSWJ) pipeline system on August 2, an official told Asia Pulse on Wednesday (8/8/07).

Indonesia's biggest glaze producer PT Ferro Mas Dinamika was one of the industries which is planning to increase its production capacity, said Bambang Sugiyaro, a senior manager at the company. "Our company is making efforts to raise its production capacity to 1,100 tons per day after PT PGN promised to supply 1.2 million cubic meters of gas a month," he said.

The US company had reduced its production capacity sharply for the past three years due to limited gas supply. It had even reduced its production capacity by 50% last year.

Meanwhile, foodware ceramic manufacturer PT Narumi Indonesia president director Hisashi Sato said his company would also step up production capacity, following the launch of the PGN gas supply through the SSWJ distribution system.

Medco to Spend \$1.4bn to Boost Output

Oil and gas producer PT Medco Energi Internasional is planning to spend up to \$1.4 billion between 2008 and 2010 to boost its oil output by about a third.

The company will spend about \$300 million to \$400 million each year for the next three years, Lukman Mahfoedz, president director of PT Medco E&P Indonesia, a unit of Medco Energi, was quoted by the Associated Press as saying late Tuesday (7/8/07).

The company has already allocated \$300 million for capital expenditures this year, he said, and plans to drill 17 exploratory oil and gas wells.

The company wants to raise its oil and gas output to 100,000 barrels of oil equivalent per day from 75,000 currently.

Chevron Submits Gas Development Plan

US oil major Chevron Corp has put forward a development plan for its natural gas fields offshore East Kalimantan, oil watchdog BP Migas said on Monday (6/8/07).

Chevron said last year it planned to invest about \$6 billion to develop gas fields off the coast, part of efforts to crank up flagging Indonesia gas output. "We are still considering whether to recommend Chevron's plan of development for offshore East Kalimantan gas fields," Achmad Luthfi, BP Migas deputy chief, told Reuters by telephone.

"It should be no problem for us to agree to the plan, but it is for the minister to approve it," he said.

Santi Manuhutu, a spokeswoman for Chevron Indonesia, said the firm planned to develop several gas fields in East Kalimantan, including Gehem, Gendalo and Bangka. "This development will require significant capital investment. It will be the deepest in Indonesia, in water depths ranging from 760-1,800 meters," she said by email.

The combined natural gas reserves in the area covered by the plan are estimated at more than 3 trillion cubic feet, said another BP Migas official, who declined to be named.

Chevron currently produces gas from several other fields in East Kalimantan, but the output is declining.

MINING

Govt. to Set up Production, Sales Watchdog

The government will set up a special agency to monitor mineral production and sales by mining companies in the country, Asia Pulse reported on Thursday (9/8/07).

The agency would directly monitor and watch the process of production of mining companies, Mangantar Marpaung, director for mineral and Coal development said.

Through direct monitoring, the agency would know the total production and sales of each mining company, Marpaung said.

Observers, including legislators, have accused some foreign mining contractors of giving false records of production and sales, causing big losses to the state in taxes and royalties.

Coal Output May Top Target: Bumi

Indonesia's largest coal producer, PT Bumi Resources said on Thursday (9/8/07) its coal output this year may top its target of 58 million tons if weather conditions are favorable.

Bumi holds the controlling stakes in PT Arutmin Indonesia and PT Kaltim Prima Coal and produced around 50 million tons last year.

"We are aiming to produce 58 million tons this year which is a 16% improvement over last year, despite rain our production is still higher than last year," Dileep Srivastava, Bumi's senior vice president for investor relations, told Reuters. "If the weather is good, we can even do 60 million tons," he added.

In March, India's Tata Power Co. bought stakes in Arutmin and Kaltim Prima Coal for \$1.3 billion.

Bumi is also planning to spend \$300 million over the next three years to build more conveyors to move the coal from mining sites to ports, reducing its dependence on weather and cutting operating costs.

The capital spending is part of the company's plan to ramp up production to 90-100 million tons by 2010. "We are trying to maximize the use of conveyors and replace trucks. The idea is to reduce the consumption of diesel which is getting costlier and costlier and use more electricity which we can produce."

He said that it might cost about \$0.10 a ton to move coal 13 km using conveyors, while moving it the same distance by road would cost \$2.50 a ton.

Arutmin Indonesia said last week its coal production has been reduced to below normal levels due to rain, but it has no plan to declare *force majeure*, as it would still be able to meet its commitments to buyers from stocks.

"KPC (Kaltim Prima Coal) has hardly been affected that much, it is relatively drier and better," Srivastava told Reuters.

Bumi's coal stockpile had declined to 1.4 million tons by the end of June, but he said the company was planning to increase stocks to around 4 million tons by the end of December.

Major miners in Indonesia's south Kalimantan have been hit by an extended wet season, which usually ends by June. The problems have tightened the Pacific coal market, which was already experiencing a supply squeeze caused by increased demand from Asian utilities as well as export cuts in Australia.

Last week, Banpu PCL, Thailand's largest coal miner, declared force majeure at its Indonesian Jorong mine after an extended rainy season in South Kalimantan slashed production.

Kenertec Secures 40% Stake in Nuansa Coal Mine

South Korea's Kenertec Co. said on Thursday (8/07) it has secured a 40% stake in an Indonesian coal mine owned by Nuansa Group.

The deal follows the signing of a \$5.5 billion coal liquefaction project with the same company last month.

Kenertec paid \$2 million for the stake in the Nunukan coal mine owned by PT Nuansa Energi Persada, which is estimated to hold at least 200 million tons of reserves. The mine's annual production rate is about 3 million tons, with operations to last for about 30 years, Kenertec said.

"The calorific value of the coal in Nunukan is about 6,300 kcal/kg," spokesman Ahn Soo-hwan told Reuters.

"We aim to start production by as early as 2010, and sell the supplies to domestic and foreign generators."

The deal will also support the country's goal of meeting half of its domestic coal demand from mines owned or operated by South Korean firms by 2016.

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