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**Trade and Investment News<sup>1</sup>, 16 July 2007**

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## POLITICS

### **Suharto Civil Lawsuit Filed**

Prosecutors filed a civil lawsuit against former Indonesian president Suharto in the South Jakarta District Court on Monday (9/7/07), seeking damages of \$1.1 billion and the repayment of \$441 million allegedly stolen from the state during his 32 years in power, Agence France-Presse reported.

"This is not a criminal case against corruption, but a civil lawsuit," stressed public prosecutor Dachamer Munthe. "We just want the money back. It could be used for the development of this country."

The funds were allegedly channeled from the central bank through state-owned banks to the Suharto-run Supersemar Foundation.

"The suit was filed because evidence has been found that the funds gathered by Suharto and the foundation he chaired were not only used for scholarships ... but in reality the funds were also used for other purposes," Munthe said.

The prosecutors also demanded the seizure of the building that houses the headquarters of the foundation, listed as a second defendant in the case.

### **Dujana's Arrest 'Lawful'**

The South Jakarta Court ruled on Monday (9/7/07) that the arrest of Jemaah Islamiyah (JI) military commander Abu Dujana was lawful and that he should remain in custody, Agence France-Presse reported.

Detachment 88 anti-terror police arrested Dujana last month as he rode on a motorcycle with three of his young children, shooting him in the leg in the process.

His wife, Sri Mardiyati, brought a suit against police alleging he was illegally detained. "The arrest and detention of Abu Dujana... followed proper procedures," Judge Wahyono told the court.

Mardiyati had said Dujana's arrest was illegal as the warrants were only sent to her weeks afterward and that police shot Dujana without cause, traumatizing their children.

Police said during the hearing that they shot the wanted terrorist in the thigh because they feared he was carrying a suicide bomb.

Wahyono said the impact of the shooting was out of the court's jurisdiction so it does not need to be considered.

Police accuse Dujana of involvement in the August 2003 bomb attack on the US-run JW Marriott hotel in Jakarta which left 12 people dead.

He denies any involvement but he has admitted to heading the military wing of JI, which has been blamed for a string of deadly bomb attacks in Indonesia in recent years.

### **More Military Cooperation Sought**

Indonesian officials want the US to raise Indonesia's military aid to \$15.7 million from the \$8 million proposed earlier by Congress.

Indonesian Ambassador to the United States Sudjadnan Parnohadiningrat said that more senators were now acknowledging Indonesia's global and regional role as a US partner in fighting terrorism and as a counterweight to rising Chinese influence in the Asia-Pacific region.

Parnohadiningrat said Indonesia hoped that the US Congress would change a proposal in the 2008 budget bill that granted Indonesia only \$8 million in military aid.

The bill must be debated by the full House and the Senate before being passed into law, probably in September.

## REGIONS

### **Papuan Presidium Council to Hold Congress**

The Indonesian Papuan Presidium Council (DPMPI) is preparing to hold its first ever congress in August in an effort to preserve Papua within the framework of the unitary state of the Indonesian Republic (NKRI), its spokesman Heemskercke Bonay told Antara on Tuesday (10/7/07).

Heemskercke, the eldest daughter of Eliezer Yan Bonay, the first governor of the then West Irian province (now Papua), said the aim of the congress was to preserve Papua within Indonesia, in addition to informing the Indonesian public that the former fighters from Papua remained united for one Indonesia.

She said the congress was important for maintaining the Papuan spirit of unity with Indonesia.

Heems, as she is popularly known, noted that all members of DPMPI, its cadres and sympathizers had been determined to perpetuate the spirit of nationalism on 1 May, 1963 which marked the return of the then Irian Barat region into the administration of Indonesia.

### **RI Seeks Extradition of RMS Leader**

National Police have issued a 'red notice' for the extradition of Alex Manuputty, a convicted leader of the South Maluku Republic (RMS) separatist movement granted asylum by the United States, spokesman Insp. Gen. Sisno Adiwino was quoted as saying by the detik.com news portal on Monday (9/7/07).

He said Alex, who fled Indonesia in 2004 after being sentenced to four years imprisonment by the Supreme Court for mutiny, is believed to still be in Washington DC.

The red notice, by which Interpol is warned of the flight of a felon, is linked to the recent illegal waving of a flag by RMS members in Ambon in front of visiting President Susilo Bambang Yudhoyono.

### **Bali Airport Gets Security Review**

A team from airport management company PT Angkasa Pura visited Ngurah Rai International Airport in Tuban, Bali recently to review the airport's safety and security measures and to improve its services.

Ngurah Rai, the second largest airport in Indonesia, receives around 1.5 million foreign visitors every year.

I Gusti Made Dhordhy, operational and technical director of PT Angkasa Pura, said the company also evaluated airports in Jakarta, Surabaya, Medan and Makassar.

"We carry out regular evaluations to meet international airport standards," he said.

The evaluation covers airport management, equipment, infrastructure, services, safety and security.

Ngurah Rai, currently under renovation, has been named one of the best airports in Indonesia.

## ECONOMY

### Moody's Looks to Upgrade

Moody's Investors Service is considering an upgrade in Indonesia's sovereign debt rating, according to a Bloomberg News report citing two analysts with the rating agency.

Steven Hess and Thomas Byrne said Friday (13/7/07) that the government is handling national finances well and has brought political stability to the country.

Byrne told a briefing for reporters in Singapore that Indonesia and Vietnam were the two regional states being considered for an upgrade.

"The Indonesian government is doing a pretty good job," said Hess. "We've seen a period of relative political stability under President Susilo Bambang Yudhoyono."

Hess added that Indonesia had succeeded in reducing debt significantly after it reached over 100% with the financial crisis a decade ago. "There is gradual improvement in Indonesia's credit fundamentals," he said. "We're fairly confident that government debt ratios are going to improve further."

Moody's raised Indonesia's debt rating outlook to "positive" from "stable" in February and affirmed its long-term foreign currency debt rating of B1, the fourth-highest non-investment grade.

Fitch rates Indonesia's debt at BB-, the third highest non-investment grade, while Standard & Poor's ranks Indonesia's dollar-denominated debt at BB- with a stable outlook.

In Jakarta, Finance Minister Sri Mulyani Indrawati said debt will have fallen to around 35.6% of GDP at Rp1,325 trillion (\$147.1 billion) by the end of the year, slightly above the end-2006 level of Rp1,310 trillion, largely because of currency fluctuations.

The Jakarta Stock Exchange composite index closed the week at another new high, partly led by gains on Wall Street but also on expectations of stronger first-half earnings. The index closed the week at 2,301.601, while the rupiah was trading at 9,025/9,030 to the dollar late Friday.

Members of the senior management of state-owned Bank Negara Indonesia (BNI) were to set off on roadshows to sell a 26% share in the bank expected to gross over \$900 million in a secondary issue in August designed to tap the buoyant market.

"Two teams will head to New York, San Francisco, Boston, Singapore, Hongkong, Edinburgh and Frankfurt, starting on July 18," BNI president director Sigit Pramono told Reuters.

In Washington, a joint study by the World Bank and the Indonesian government was released on Tuesday, stating that Indonesia is currently seeing its largest increase in development spending in three decades.

It said a sharp reduction in fuel subsidies in 2005, declining debt service payments and increasing revenues have provided an additional \$15 billion - of the total national budget of \$70 billion - for critical development needs.

"Indonesia is now less vulnerable, and stronger than before. Indonesia finds itself in a situation of fiscal strength," said Jim Adams, the World Bank's vice president for East Asia and Pacific, who launched the report.

"The country is moving in the right direction, with challenges in governance and improving public services. The country is now in a position to use this fiscal strength to address those challenges more effectively."

The report notes that while education now tops budgetary spending at 17%, higher investments in the sector would be highly beneficial. Payment on debt is strongly down from number 1 in 2001 (25%) to fifth position with 11% of spending. "Infrastructure . . . has only recovered very modestly to 11% from its post-crisis downturn," says the report.

The Coordinating Ministry of Economic Affairs stated that 21 out of 28 reform actions due in June had been completed and the remaining seven were underway.

Coordinating Minister for Economy Boediono reported to the president that another 4 actions had been completed ahead of time, a statement said.

The completed steps included improvement in investment regulations, financial sector reform, infrastructure development acceleration, and empowerment of micro, small and medium enterprises. Steps had also been taken in entrepreneurial and human resources development.

## **BUSINESS BRIEFS**

### **MACROECONOMY**

## **BI Sees Room for Policy Easing**

Bank Indonesia (BI) sees room to continue its policy of monetary easing but in a measured and cautious manner, Governor Burhanuddin Abdullah said in a statement to parliament.

In the statement seen by Reuters on Friday (13/7/07), Abdullah estimated the country's GDP growth at 6.1% in the second quarter and forecast 6.2% for the full year 2007.

"By reviewing the developments in our economy, which are continuing to improve, and the prospect of inflation to hit our target... there's room to continue with monetary easing policy in a measured and cautious manner," he said.

He also said the monetary authority is forecasting a 6% inflation rate for this year and 5% in 2008.

Abdullah added that the rupiah is expected to average between 9,000 and 9,200 per dollar this year. It is currently trading at just over 9,000 to the dollar.

He noted that the country's foreign exchange reserves had risen to \$50.9 billion from \$42.6 billion by the end of 2006.

Head of the Finance Department's Fiscal Policy Agency, Anggito Abimanyu, likewise predicted on Thursday that the economy will grow between 6% and 6.11% year-on-year in the second quarter on higher investment, exports and domestic spending.

The economy, which recorded year-on-year growth of 6% in the first quarter of the year, will have expanded by 6.04% in the year's first half, he was quoted as saying by *The Jakarta Post*.

He further estimated that year-on-year growth will clock in at 6.29% and 6.45% in the third and fourth quarters, respectively, so as to achieve the 6.3% full-year growth rate targeted for 2007.

"Realized investments will increase, building on the back of increasing investment approvals since 2005," Abimanyu said, commenting on the Finance Department's latest economic assessment.

Rising cement consumption and imports of capital goods have also left the government upbeat that investment will turn out to have grown by 11% in the second quarter.

Consumer spending, meanwhile, is believed to have grown by 4.9%, and government spending by 8.9%, he said, while exports are projected to have increased by 9.4% in the three months from April through June.

On the supply-side of the economy, ongoing growth in the communications, transportation, manufacturing and agricultural sectors are expected to more than compensate for the slight slow-downs in the construction, utilities, mining, trade and tourism sectors.

## **State Debt in 2007 Projected at \$147.1b**

Finance Minister Sri Mulyani Indrawati said the country's national debt at the end of 2007 is projected at Rp1,325 trillion (\$147.1 billion), representing about 35.61% of gross domestic product (GDP). It will be the lowest Debt to GDP ratio since the financial crisis hit the country ten years ago, down from more than 100% in 1999.

Indrawati made the statement when she delivered the government's explanations to the House's budget committee on the revision of the law on the state budget. She said the debt projection consisted of Rp546 trillion in external debts and Rp779 trillion in state debentures.

She explained that Indonesia's external debts have continued to decline from Rp612 trillion in 2005, Rp562 trillion in 2006 to the projected Rp546 trillion in 2007. In contrast, she said, domestic debts through the issuance of state debentures have continued to increase from Rp686 trillion in 2005, Rp748 trillion in 2006 and to the projected Rp779 trillion in 2007.

## **Excise Revenue Jumps 16.6% in H1**

State revenues from cigarette and alcoholic drinks excise duties totaled Rp21 trillion (\$2.35 billion) in the first half of the year, up 16.6% from Rp18 trillion in the same period last year.

The increase was attributable to a rise in cigarette excise duty and production, customs and excise director Frans Rupang was quoted as saying by Antara on Thursday (12/7/07).

Rupang said he is optimistic that based on the performance in the first half of this year, excise revenue would reach Rp42 trillion for the entire year.

## **Garment Exports to Reach \$10.4b**

The country's garment exports this year are expected to reach a total value of \$10.4 billion, compared to last year's \$9.6 billion, Benny Soetrisno, chairman of the Indonesian Textile Association (API) said on Tuesday (10/7/07).

He said the prospects of the garment industry are bright as buyers' requests have continued to increase while banks have also become more active in extending loans to manufacturers.

"Banks are more ready to extend credits to this sector because they now see big opportunities in the industry and recognize the industry's contribution to the country's income," Soetrisno said, according to Antara.

Indonesia's garment exports have increased in value but the number of workers in the sector, which numbered 120,000 some time ago, has decreased by 11%, he said, blaming the manpower reduction on the fact that many companies have installed new machines to increase productivity. He said this is logical within the context of the companies' modernization efforts.

## INVESTMENT

### Foreign Investment Up: BKPM

Foreign direct investment (FDI) rose 17% to \$4.1 billion in the first half of the year compared to the same period a year ago, data from the state investment agency BKPM showed on Monday (9/7/07).

The agency did not give reasons, but analysts say an anti-graft campaign has helped boost investment in the country, Reuters reported.

The data also showed actual domestic investment rose more than 150% to Rp28.37 trillion (\$3.15 billion) in January to June from the same period last year. Foreign investment approvals increased a little more than 300% to \$23.98 billion.

"Bureaucratic hurdles in getting permits have eased. Investing here is no longer as difficult as in previous years, that's why actual investment increased," said economist Juniman of Bank Internasional Indonesia (BII).

But analysts said investors still complained about tough labor laws and an unreliable legal system.

Last year, actual foreign direct investment plunged to \$5.98 billion from \$8.91 billion in 2005, although FDI approvals were up to \$15.62 billion from \$13.58 billion.

### International Port for Banten

Eight firms have submitted proposals to build an international port in Banten province, an official at state-owned port operator Pelindo II said.

The official declined to provide investment figures, but local media have reported the project is worth an estimated Rp10.1 trillion (\$1.12 billion). The government plans to develop 25 international ports over the next few years as the country's trade grows.

"They all have registered to take part in a tender, they are six foreign firms and two local firms," Pelindo II spokesman Hendra Budi told Reuters on Thursday (12/7/07).

The firms include Singapore's PSA International, Hutchison Port Holdings Ltd and Maersk Line, a subsidiary of Danish shipping and oil group AP Moeller-Maersk. US container terminal operator Stevedoring Services of America (SSA) and local firms PT Samudera Indonesia and PT Dinamika Cipta Sentosa are also on the list. Construction will start in late 2008 and is expected to be completed by 2025.

The government needs \$140 billion to finance infrastructure projects such as ports, toll roads, and railways in a bid to quicken economic growth and reduce unemployment between 2005 and 2009.

It however admitted that the 2007 budget allocation for investment in the infrastructure sector is not enough to speed up the sector's development in support of high economic growth.

"True, (it is far from enough). That's why we must use the available funds as efficiently and effectively as possible," Coordinating Minister for Economic Affairs Boediono said Wednesday, according to Antara.

The amount of funds needed for investment in the infrastructure sector is so huge that it could not entirely be provided in the state budget, he said.

## **Danone Builds New Factory in W Java**

The French Danone Group is building a Rp125 billion (\$14 million) milk processing plant in Cikarang, West Java with an annual capacity of 20,000 tons.

The factory will be operational in the last quarter of this year, Danone chairman Franck Riboud said, according to an Antara report on Wednesday (11/7/07).

Danone wants to maintain its lead in the milk market in the country, Riboud said, adding construction of the factory is also prompted by the fact that per capita consumption of milk in Indonesia is still low.

The company will cooperate with local livestock farmers in Ciater and the factory is expected to boost Ciater's fresh milk production, he said.

### STATE CONCERNS

## **Indonesia, Vietnam to Join Forces on Pepper**

Indonesia and Vietnam, two of the world's top pepper producers, are to cooperate in the marketing of the spice, an Indonesian industry executive said Wednesday (11/7/07).

Producers in the two nations plan to establish a joint committee focusing on marketing, improving quality standards and compiling statistics, said Mustakim Wijaya, vice chairman of the Indonesian Pepper Exporters' Association.

"The Vietnamese side wants the joint committee to be formed before the end of the year and we are working on this," he told Agence France-Presse.

Together the two countries produce more than 45% of the world's pepper supply.

Wijaya said the committee would meet annually to discuss the international market. China and Brazil, two other major producers, have expressed interest in joining the committee and have sent observers to meetings between Indonesia and Vietnam, including a two-day meet which wrapped up on Tuesday.

Vietnam is the world's top pepper exporter with a market share of about 33%, followed by Brazil with 15% and Indonesia with 13%. Wijaya said that current world pepper supply remained well below demand, with a shortfall of about 47,500 tons estimated for 2007.

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SOEs

## Telkom Sees Improved Q2 Earnings

PT Telkom said Wednesday (11/7/07) it expects to report stronger earnings in the second quarter to June compared to the previous quarter due to the higher subscriber base for its cellular and fixed wireless telephone services.

"We also expect margins to have improved in the second quarter," Telkom finance director Sudiro Asno told Thomson Financial.

Further boosting earnings in the quarter is the fact that there were no major natural disasters over the three months to June to affect telephone operations, unlike the previous quarter when Jakarta and nearby towns were hit by heavy flooding, he said.

In the first quarter to March, Telkom posted a net profit of Rp3.04 trillion, down from Rp3.46 trillion a year earlier.

Asno said Telkom's cellular subscriber base is estimated to have risen to 42.8 million at end-June compared to 38.9 million at end-March and 35.6 million at the end of 2006. "Our guidance was to add 9 million to 10 million subscribers this year, so we could exceed that," he said.

Telkom's subscriber base for its fixed wireless service is estimated to have risen to around 5.3 million at end-June. For the first six months, net additions to this service were estimated at some 1.1 million to 1.2 million, he said.

Asno said Telkom may report a slight decline in the average revenue per user (ARPU) for the second quarter, but this should be offset by higher phone traffic volume due to the increase in its subscribers.

## Capital Injection for Askrindo

The government will inject Rp1 trillion (\$111 million) into PT Asuransi Kredit Indonesia (Askrindo) to strengthen the capital of the state-owned company, which guarantees loans to small and medium enterprises, Antara reported on Thursday (12/7/07).

The capital injection is to increase the performance of the company, Finance Minister Sri Mulyani Indrawati said.

The state budget this year set aside Rp1.4 trillion for Askrindo, to be raised from the privatization of a number of state companies.

Meanwhile, Bank Indonesia senior Deputy Governor Miranda Gultom said the central bank is ready to advance the funds if the government needs them.

Head of the Fiscal Policy Agency Anggito Abimanyu said the injection is needed to strengthen Askrindo to enable it to support small and medium enterprises, which can not get bank loans as they have no collateral.

## Pos Indonesia to Launch IPO

State-owned postal company PT Pos Indonesia (Posindo) said it will launch an initial public offering (IPO) early in 2010 to raise funds to expand its infrastructure, Antara reported on Thursday (12/7/07).

Posindo hopes to earn Rp3.15 trillion (\$350 million) in fresh funds from the IPO, or 30% of its total assets, its president Hana Suryana said.

Suryana said Posindo will expand and modernize its infrastructure to have international class networks. He said he is optimistic the market would welcome the IPO as the company has improved its performance lately.

The company posted Rp2.5 billion in net profit in 2006.

### PRIVATE SECTOR

## Toyota June Vehicle Sales Up 54%

PT Toyota-Astra Motor said Wednesday (11/7/07) its vehicle sales for June rose 54% year-on-year, allowing it to keep its dominance in the market with a 34% market share, Dow Jones Newswires reported.

It sold 13,307 units in June, compared with 8,646 vehicles sold in June 2006. Sales in June rose slightly from 13,188 units in May.

For the first six months of the year, the joint venture between Japan's Toyota Motor Corp and PT Astra International sold a total of 69,092 units, up from 61,805 units for the same period last year. Total new vehicle sales rose to 197,320 during the first half of the year, from 149,634 over the same period last year, amid falling interest rates.

Meanwhile, nationwide motorcycle sales in the first half to June rose 16.3% year-on-year to 2.13 million, data from the Indonesian Motorcycle Industry Association (AISI) showed.

In June alone, nationwide motorcycle sales rose 6.8% year-on-year to 371,847. The association said Honda had the biggest market share in the first half, with sales of 923,991 motorcycles. Yamaha and Suzuki came in second and third with sales of 894,663 and 270,136, respectively, Thomson Financial reported.

For the month of June, Honda sales dropped 6.8% year-on-year to 159,995. Honda bikes are distributed by PT Astra Honda Motor, a 50-50 joint venture between PT Astra International and Japan's Honda Motor Co. Yamaha sales in June were up 24% year-on-year at 155,320 while those of Suzuki rose to 50,391 motorcycles from 46,726 the year before.

## Astra Agro H1 Net Profit Up 65%

The country's largest listed plantation company, PT Astra Agro Lestari, posted a 65% rise in its first half net profit, *Bisnis Indonesia* reported on Thursday (12/7/07), quoting the firm's finance director.

The company made a net profit of Rp682.5 billion (\$75.56 million) in the January-June period, thanks to a sharp rise in palm oil prices, Santosa, said. Analysts expect the company, controlled by PT Astra International, to book net profit of Rp1.4 trillion this year, up from Rp787.3 billion in 2006.

Prices of palm oil, Astra Agro's core business, have risen sharply as global demand for the commodity has increased as the world turns to alternative sources of energy.

## BANKS

### **Banks Now Better Placed - BI**

The banking sector has improved significantly and is quite capable of weathering shocks, having learned the hard way from the financial crisis about the importance of managing lending risks, the central bank governor said.

However, Burhanuddin Abdullah warned the industry to avoid complacency and to continue improving competitiveness and risk management in all areas related to operations.

Abdullah said that if another crisis were to occur like the currency upheaval that precipitated the 1997-1998 financial meltdown, it would unlikely cause as much damage to the banking industry and the economy as before.

"I think only two or three small-sized banks would face problems today," he said Monday (9/7/07) during a workshop on good governance in the banking sector. "The rest will be resilient enough to keep going as usual."

BI is basing its optimism on the fact that the banks have greatly improved governance and risk management in recent years, and have been displaying resilience under the various "stress tests" that the central bank has been applying to the industry.

The economy is also stronger now, Abdullah was quoted as saying by *The Jakarta Post*. This is shown by stable inflation, an improving balance of payments picture on growing forex reserves, a solid budget and better deficit management.

The central bank has been requiring the country's banks to practice prudent lending, and to comply with the Basel II risk management international best practices by 2010. Basel II not only deals with managing lending risks, but also deals more comprehensively with asset management aspects.

BI has also required all of the country's banks to have capitalizations of at least Rp80 billion (\$8.8 million) by the end of the year, and Rp100 billion by 2010. New banks must have a minimum capitalization of Rp3 trillion.

All this is expected to encourage mergers and acquisitions in the sector to produce a smaller but leaner and stronger banking industry.

Abdullah expressed concern about the growing trend among banks to outsource some of their operations.

While outsourcing could help improve efficiency, it could also have adverse effects on the sustainability of a bank's operations, he said. "We expect the banks to invest more in their own human resources, and consider these issues before going for outsourcing," he said.

Indonesian Banking Association (Perbanas) chairman Sigit Pramono admitted that many banks had outsourced low-end functions to reduce costs, but said that this was mostly confined to non-lending operations, such as delivery services and IT functions.

### **BNI Plans Roadshows**

Bank Negara Indonesia (BNI) plans overseas roadshows in a number of countries this week to lure investors for its planned share offering, its chief said on Wednesday (11/7/07).

The government plans to sell a 26% stake in state-run BNI worth more than \$900 million in August, which is expected to be the biggest privatization so far.

The share sale, which will reduce the state's shareholding to 73% from 99%, comes as the government expects to capitalize on strong gains in the Jakarta stock market, which has doubled in the past two years.

"Two teams will head to New York, San Francisco, Boston, Singapore, Hong Kong, Edinburgh and Frankfurt, starting on July 18," BNI president director Sigit Pramono told Reuters.

"The stake sale is aimed at strengthening BNI's capital base and to support asset growth. It is also aimed at getting long-term funds which can be disbursed into long-term loans such as investment loans, loans for infrastructure or loans to the plantation sector."

Pramono said the bank will hold its roadshows until July 26.

The bank, with total assets of about Rp175 trillion (\$19.42 billion), is on track to meet its 20% loan growth target this year, Pramono said. BNI's loans in the first half of this year are estimated to have grown some 29% to Rp78 trillion from the same period a year ago, he said. BNI's loans stood at Rp66.77 trillion at the end of 2006.

"The loans were mostly extended to the mining, construction and manufacturing sectors," Pramono said.

## **BRI H1 Net Rp2.5t Vs Rp2t 2006**

Bank Rakyat Indonesia (BRI) booked Rp2.5 trillion in net profit during the first half of the year, an official said late Wednesday (11/7/07), according to Dow Jones Newswires.

The state-owned bank, which targets rural areas across Indonesia, recorded Rp2 trillion in net-profit during the first half of 2006.

BRI chief financial officer Abdul Salam said the higher first-half net profit was due to lower costs of funds amid lower interest rates in the country.

Salam said the bank's total loans rose 20% during the January-June period, but did not specify whether the increase was compared with the year-earlier figure or the most recent six months.

BRI expects to book Rp4 trillion in full-year net profit in 2007, while new loans are expected to reach Rp20 trillion.

## **POWER**

### **New Bill Hopes to Spark Power Sector**

A new energy bill is hoped to allow new players to compete with state utility PT PLN in electricity generation, distribution and transmission.

"We have high hopes for this new bill as it should accelerate electrification in remote areas," J. Purwono, the Energy and Mineral Resources Ministry's Director General of Electricity Utilization, told *The Jakarta Post* on Tuesday (10/7/07).

Under article 10(2) of the latest version of the electrical power bill, local government-owned and private-sector firms will be allowed to enter the sector to help ensure sustainable electricity supplies throughout the country for the first time.

If approved by the House of Representatives, the bill will effectively end the monopoly held by PLN over the country's electricity sector. The bill will replace the 1985 Electrical Power Law, which gives PLN a monopoly over the country's electricity system, and obliges other players to work under PLN based on Independent Power Producer (IPP) agreements.

Purwono said the government was hopeful that the bill would be enacted by the end of the year.

Purwono said that the arrival of new players would indirectly assist PLN fulfill its mandate of providing and distributing electricity to the entire country.

The company hopes to achieve 100% electrification by 2025. Currently, the country's electrification rate stands at a low 56%, which PLN claims is the result of a lack of money.

Purwono said unpredictable price fluctuations and other free market risks were unlikely as the bill also contained a mechanism by which different levels of government down to local level would continue to have a say over pricing.

Private sector involvement will also require a license from the relevant administration before it can commence operations, he added

## **PLN: Mitsubishi Wins Expansion Project**

PT PLN said Wednesday (11/7/07) it has selected Mitsubishi Corp. as the winner of a project to double power generating capacity at its Muara Karang gas-fired power plant. The project will see generating capacity increase to 720 MW.

PLN deputy director Tonny Agus Mulyantono told Thomson Financial the project may cost around \$430 million.

Mitsubishi Corp beat out other bidders such as Siemens AG and Mitsui & Co, said Mulyantono, adding that the Japanese company will co-operate with other businesses for the project including Mitsubishi Heavy Industries, Sumitomo Corp. and Truba Jurong.

## **OIL & GAS**

### **Parliament to Approve New Energy Law Soon**

The government and the House of Representative's Commission VII, which deals with energy and mining issues, have reached agreement on the draft of a new energy law, *Platts Commodity News* reported.

The law is likely to be approved at a plenary meeting of the House of Representatives soon, vice chairman of Commission VII Achmad Farihal said Wednesday (11/7/07).

The draft law suggests energy management to secure energy for domestic needs and to avoid a crisis. It requires the government to offer incentives to players involved in the distribution and utilization of renewable energy.

The draft also says that international energy cooperation should be allowed only to help fulfill the country's energy needs and develop the economy.

Under the new energy law, the government will establish a National Energy Board led by the president with the vice president as vice chairman and the energy and mines minister as the chairman. The board will be responsible for framing a national energy policy and will also monitor its implementation.

Indonesia is trying to reduce its dependency on oil-based fuels, which currently comprise about 52% of the national energy mix. The government is aiming to reduce its consumption of oil-based fuels to less than 20% of the national energy mix by 2025, with coal and natural gas accounting for 33% and 30%, respectively. Renewable energy is expected to account for 17% of the energy mix.

## More Biofuel Incentives Proposed

To help develop the renewable energy sector and the use of biofuels, the government is considering providing various incentives, including value-added tax (VAT) reductions for business players, and excise duty cuts for biofuel users.

Evita H. Legowo, first secretary of the government-sanctioned National Biofuel Development Committee, said Tuesday (10/7/07) that the incentives were currently being discussed with tax officials at the Finance Ministry. "We hope the incentives will be in place by the end of the year," Legowo told *The Jakarta Post*.

On plans to introduce VAT cuts, Evita added that the committee had submitted two proposals, one that the government reduce VAT by 50% to 5%, and the second the complete elimination of the tax. "We are still debating this," she said, adding that the reduction would offer advantages to renewable energy promoters in purchasing feedstock and equipment.

The government was also considering halving the excise tax of 5% currently imposed on fuel used by cars, trucks and motorbikes to 2.5% in the case of biofuels.

The proposed incentives -- which will be implemented by way of government regulation if approved -- are based on the provisions of the energy bill currently being deliberated by the House of Representatives.

The bill, which is expected to be enacted next week, stresses the need to promote the utilization of renewable energy.

Aside from the proposed incentives, President Susilo Bambang Yudhoyono has issued a regulation that provides corporate income tax breaks for firms involved in the biofuel business.

The presidential regulation was issued after the government signed 58 deals last January worth \$12.4 billion with a number of big energy firms, including Chinese oil giant CNOOC and Malaysian oil company Genting, for the development of the sector.

State oil and gas firm PT Pertamina -- which has been appointed by the government as the country's sole distributor of biofuels -- has been complaining about how it continues to suffer losses from this side of its business.

## ExxonMobil, Pertamina to Drill at Cepu

ExxonMobil and its partner state-owned Pertamina will drill two appraisal wells at the Banyu Urip oil discovery in Cepu block by the end of this month, an ExxonMobil official said Friday (13/7/07).

"The onshore rigs are ready at the location. We will begin drilling two wells to appraise the Banyu Urip reserves," Maman Budiman, ExxonMobil Oil Indonesia's spokesman told *Platts Commodity News*.

Budiman said the companies will also drill three exploration wells in Cepu's three fields, including the Alas Tuo, as soon as land acquisition is completed.

Pertamina now estimates oil production from Cepu could start in 2008 at 10,000-20,000 b/d, earlier than the initial expectation of early 2009.

Upstream regulator BP Migas has asked ExxonMobil and Pertamina to use the production facility owned by a joint operating body between Pertamina and PetroChina in East Java to bring forward the Cepu production start.

## Medco to Drill E. Kalimantan Gas Block

PT Medco Energi Internasional will drill a well in the Simenggaris block onshore East Kalimantan to determine gas reserves in the area, a company official told Reuters on Friday (13/7/07).

Separately, an official at energy watchdog BPMIGAS said preliminary indications suggested gas reserves of about 125 billion cubic feet in Simenggaris, where a majority stake is owned by Medco.

### MINING

## Mining Bill Close to Completion

Lawmakers and the government clinched a deal Wednesday (11/7/07) on a special scheme, similar to the current contract of work (CoW) arrangements, for major mining projects, *The Jakarta Post* reported

The deal leaves only major issue still to be resolved: the transition period during which existing CoW holders must bring their mining operations into line with the new system envisaged by the bill.

Wednesday's agreement ends weeks of intense discussion of what would succeed the CoW scheme, which had divided the House of Representatives' committee deliberating the bill.

The original version of the bill envisaged an end to the existing CoW scheme and its replacement with a new licensing system under which investors would have to secure permits either from the central government or local government, depending on the extent of the proposed mine, before they could commence operations.

Critics in the industry said such a system failed to provide a level playing field for miners, arguing that a permit, instead of contract, would put companies in an inferior position as the government could revoke the permit at any time.

Golkar Party faction then introduced the idea of issuing special permits, similar to CoWs and to be known as mining agreements, for projects worth at least \$250 million and their management by a separate agency, similar to those used in the oil and gas sector.

Mining permits for projects worth less than \$250 million will be issued by local governments.

To obtain a contract, the minerals to be mined must also be deemed to be of major strategic value, such as copper, nickel and gold, according to Erlangga Hartarto, a Golkar legislator.

Erlangga added that before securing a mining agreement from the new agency, an investor would first have to secure a preliminary license from the Energy and Mineral Resources Ministry.

"This license will allow them to carry out pre-prospecting work to determine the project's feasibility. After the project has been shown to be economically viable, then the firm can submit its proposal for a mining agreement."

Under the mining agreement, the firm will enjoy various benefits, including the charging of tax at a fixed rate and the right to go to international arbitration should a dispute arise with the government. The bill, if approved, will supersede the existing 1967 Mining Law.

## **Antam, Krakatau to Build \$65M Steel Plant**

Nickel miner PT Aneka Tambang (Antam) has agreed to tie up with state-owned Krakatau Steel to build a steel plant in Batulicin, South Kalimantan province with investment of \$65 million, *Investor Daily* reported on Wednesday (11/7/07).

Antam corporate secretary Bimo Budi Satriyo said construction of the plant is expected to begin next month, with the project to be financed 65% from bank loans and 35% from equity.

A number of banks have expressed interest in providing finance, including Bank Mandiri, Bank Negara Indonesia and Hong Kong Shanghai Banking Corporation (HSBC), he noted.

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