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## POLITICS

### Climate Conference Adopts Global Plan

The UN Climate Change Conference in Bali adopted a roadmap to negotiate a new global warming pact on Saturday, after the United States suddenly reversed its opposition to a call by developing nations for technological help to battle rising temperatures.

The adoption came after marathon negotiations overnight, which first settled a battle between Europe and the US over whether the document should mention specific goals for rich countries' obligations to cut greenhouse gas emissions.

European and US envoys dueled into the final hours of the two-week meeting over the European Union's proposal that the Bali mandate suggest an ambitious goal for cutting industrial nations' emissions - by 25% to 40% below 1990 levels by 2020.

That guideline's specific numbers were eliminated from the text, but an indirect reference was inserted instead.

The negotiations snagged again early Saturday over demands by developing nations that their need for technological help from rich nations and other issues receive greater recognition in the document launching the negotiations.

"I think we have come a long way here," said Paula Dobriansky, head of the US delegation. "In this, the United States is very committed to this effort and just wants to really ensure we all act together. We will go forward and join consensus."

As for developing countries, the final document instructs negotiators to consider incentives and other means to encourage poorer nations to curb, on a voluntary basis, growth in their emissions.

The Bali conference had been charged with launching negotiations for a regime of deeper emissions reductions to succeed the Kyoto Protocol, which requires 37 industrial nations to cut output of carbon dioxide and other greenhouse gases by 5% below 1990 levels by 2012.

### Deal to Fight Deforestation Sealed at Climate Talks

Climate talks in Bali reached a deal on Friday (14/12/07) to tackle greenhouse gas emissions from deforestation, hailed as a sign of developing nations' commitment to fighting global warming, Reuters reported.

The breakthrough might eventually allow poor but forested nations to turn conservation into a tradable commodity, with the potential to earn billions of dollars selling carbon credits.

But one of the scheme's key architects warned that, if successful, it will create such large emissions reductions that carbon markets could collapse unless rich nations take on more stringent reductions targets.

Deforestation had been left out of previous climate deals because of concerns about how to work out which trees were threatened, and that any scheme would reward countries destroying forests rather than those protecting their resources.

"Forests have been the elephants in the corner of the climate change process," said Andrew Mitchell, executive director of Global Canopy Program, adding that markets were the only way to find the billions of dollars a year needed to protect forests.

"We cannot expect philanthropy or governments to come up with this amount of money sustainably," he said.

The new deal, which has been agreed but is yet to be formally approved, provides a framework for countries to start pilot projects and lay the groundwork for broader programs.

A planned \$300 million World Bank fund will help pay for forest surveys and other groundwork, and finance the first projects but the scheme has been driven by developing nations.

US scientist Peter Frumhoff, Director of Science and Policy at the Union of Concerned Scientists, said the project – also known as Reducing Emissions from Deforestation and Degradation (REDD) -- was a sign of poorer countries' sense of urgency about tackling global warming.

But Kevin Conrad, executive director of the Coalition for Rainforest Nations and Papua New Guinea's climate change envoy said that when the pace of programs picked up, they would generate so many credits it would skew carbon markets.

## **Australia Reaffirms Counter-Terrorism Commitment**

Australian Prime Minister Kevin Rudd said he had reinforced Australia's commitment to joint efforts to fight terrorism during talks with President Susilo Bambang Yudhoyono as terrorists still pose a threat to Australian lives, Australian Associated Press reported.

"The threat of terrorism is real, as we have seen by recent tragic events in Algiers," Rudd said on Thursday, referring to twin car bombings that killed 11 UN staffers and about 30 others in the Algerian capital two days ago. "Therefore we must remain forever vigilant in this area," he said.

Under heavy security Rudd and Foreign Affairs Minister Stephen Smith laid wreaths at the memorial garden at the Australian Consulate General in Bali.

Rudd said he made the visit on behalf of the Australian government and people, adding that the 2002 and 2005 bombings underlined the importance of counter-terrorism co-operation with Indonesia.

### **REGIONS**

## **BRR Hands Over 100,000th Tsunami House**

The Agency for the Rehabilitation and Reconstruction in Aceh and Nias (BRR) handed over the 100,000<sup>th</sup> new house for survivors of the December 2004 tsunami house in Aceh and Nias, which were devastated by the 2004 Indian Ocean tsunami, an official said.

Mirza Keumala, spokesman of the agency overseeing reconstruction in the wake of the deadly tsunami, said the formal affair took place in Teunom village, Aceh Jaya district, Agence France-Presse reported.

He said 138 houses, which included the 100,000<sup>th</sup>, were symbolically handed over to residents in the village, which was in one of the areas worst hit by the tsunami. The catastrophe claimed 168,000 Indonesian lives.

"We wanted to give a morale boost to the people here in rebuilding their district," he said, adding that people still faced daily challenges as infrastructure remained in poor condition.

Keumala said that reconstruction of a targeted 120,000 houses was expected to be completed by April 2008, and despite the formal ceremony on Friday, 103,000 have now been finished.

Earlier, BRR head Kuntoro Mangkusubroto, launching a report on progress on tsunami recovery programs, said half of the 3,000 km of destroyed roads have been rebuilt, 332 of 450 village offices have been reconstructed, seven airports have been upgraded and three new ones completed.

However, decent housing remains a massive concern for the local population. "There will be no more housing projects or housing construction beyond April 2008, except one or two organizations," he said in November.

"But it doesn't mean the problem of housing has been solved," he warned. "We understand there are still problems... We are going to solve these problems."

## Vatican Envoy Calls for Harmony

The Vatican's ambassador to Indonesia called on Indonesians of all faiths to maintain an open dialogue and understanding in order to prevent further conflicts and maintain a cohesive environment throughout the country, Antara reported.

The Papal Nuncio, Leopolda Girelli, called on Muslims, Christians, Protestants and Catholics alike in Maluku to maintain brotherhood and peace following the social conflict which broke out in the region in 1999.

"Maintain brotherhood and peace to prevent the conflict from recurring and the people will live in true peace regardless of their differences," the ambassador said in Ambon on Sunday night (9/12/07).

International experts on Christian and Muslim perspectives speaking at a seminar a day earlier organized by the Center for Dialogue and Cooperation among Civilizations (CDCC) and the British Embassy in Jakarta echoed Girelli's statements advising Indonesians to work together to show compassion for one another's religions.

Prof. Seyyed Amir Akrami, a visiting research fellow at the University of Birmingham in the UK and an expert on Islam, said, "it's very clear the Islamic religion couldn't be a matter of compulsion and coercion."

"Faith in Islam is happening within the heart, when one experiences the internal, emotional connection with God," he said.

## Navy in Exercises Off E. Kalimantan

Twenty warships from the Indonesian Navy were due to take part in exercises in the Makassar Strait off Sangatta in East Kalimantan at the weekend, Antara reported.

Warships from both from the eastern and western fleets would take part in the exercise, a spokesman for Balikpapan Naval Base, Maj. Arif, said Tuesday (11/12/07).

He said warships from the Eastern Fleet Command would support the naval exercise which will take place from Friday to Sunday, with some 1,200 personnel involved.

"We will also operate Indonesia's newest warships, KRI *Surabaya* and KRI *Diponegoro*," he said.

KRI *Diponegoro* is a Sigma class corvette recently purchased from the Netherlands. "The vessel is the Navy's most sophisticated warship," Arif said.

KRI *Surabaya* is a landing platform dock (LPD) capable of carrying 400 personnel.

Meanwhile the Navy said it intended to relocate its Palembang base to Tanjung Api-Api, *Republika* reported.

Palembang Naval Base Commander Lt. Col. Tatit Eko Wicaksono said the provincial government would provide 10 hectares of land for the new base, which would be located together with the headquarters of South Sumatra Police's Sea and Air Unit.

Wicaksono said that the new naval base would be sufficient for handling naval operations and would be able to facilitate all of the navy's vessels.

## ECONOMY

### Indonesia Studies Euro Bonds

The Department of Finance is examining the prospects for euro loans in order to widen its exposure to the US dollar, head of the department's fiscal policy unit, Anggito Abimanyu said Wednesday (12/12/07), *Kompas* reported.

He added that the government had already begun to widen the variety of debt instruments through the use of shariah bonds.

Any decision to shift away from the US dollar for international bond offers would take time, Abimanyu said. "We always consider every issue and our requirements, particularly in terms of meeting the budget deficit. We will also widen our investor base into the euro market, but this cannot be done quickly," he said.

Separately, Director General for Debt Management Rahmat Waluyanto said it was likely that Indonesia would offer bonds in euro and yen, but this would not occur in 2008.

Current efforts towards a widening of the debt instruments were focused on retail and shariah bonds, he said.

Finance Minister Sri Mulyani Indrawati, in an interview with Bloomberg, said Indonesia could outperform its own projection for growth next year. Rising demand from India and China would shield it and its neighbors from a US, she said.

"We are aiming for higher than 6.8%," she said in an interview in Jakarta, referring to the government's forecast for next year's expansion. "India and China will be quite strong in actually pulling growth in the region."

Bloomberg noted that Indonesia's exports to China are growing four times faster than its exports to the US.

"We have seen that trend," said Aldian Taloputra, an economist at PT Mandiri Sekuritas. "Indonesia's exports to other countries in the region, especially China, are increasing, which will reduce the impact of a recession in the US."

China, the world's largest user and producer of coal, will be a net importer of 18 million metric tons in 2008, UBS AG said in a report on December 6, pushing up prices of the energy and helping miners in Indonesia, which is the biggest exporter of coal used in power plants.

She said growth trends were strongly positive through 2007. "This is indicated by the higher economic growth rates in the third and fourth quarters which reached 5% to 6% a year, and the increase in people's purchasing power to above 5%, and the fact that exports have recorded a higher value," she said.

"But we must stay alert about a possible rise in inflation and a decline in people's purchasing power next year," she added. Slower world economic activity would also impact the economy, she said.

The central bank was also positive about next year's growth. Bank Indonesia (BI) predicted that the balance of payments surplus would rise 15% to \$15.6 billion, led by foreign direct investment.

For 2007, the balance of payments surplus is seen as clocking in at \$13.6 billion, BI said on Monday, with the surplus reaching \$1.1 billion in the third quarter, Agence France-Presse reported.

BI estimates that the current account surplus will reach \$9.3 billion next year, down from the \$10.9 billion it estimated for this year, due to slower growth in non-oil-and-gas exports as global demand slows, rather than faster import growth.

The capital account surplus is seen rising to \$6.3 billion from \$5.6 billion this year.

"The investment climate is expected to improve further so that it will also boost capital inflows, especially foreign direct investment," BI said.

In line with the bigger balance of payments surplus, BI is expecting foreign exchange reserves to rise to \$72.9 billion at the end of 2008 from the \$57.3 billion estimated for the end of 2007. Reserves stood at \$54.90 billion as of November 30, from \$54.10 billion at the end of October.

Overall investment in Indonesia is currently at record levels. In the first 10 months of 2007 it rose 113% from a year ago to a record Rp114.70 trillion (\$12.5 billion), the National Investment Coordinating Board said last month.

Actual foreign direct investment over the period more than doubled to Rp81.72 trillion compared to 2006.

Share prices closed 0.6% off on Friday as investors cashed in ahead of this week's shortened trading week, with losses in regional markets spurring the sell-off, dealers said, according to Agence France-Presse.

The market will be closed on Thursday and Friday this week for the Idul Adha Islamic holiday, and again on Monday and Tuesday the following week for Christmas.

The Jakarta composite index closed down 15.67 points at 2,740.06, down 1.45 over the week. The rupiah was trading at 9,325/9,330 to the dollar.

## BUSINESS BRIEFS

### MACROECONOMY

## **BI: Fund Inflows Help To Lower Inflation**

Bank Indonesia (BI) deputy governor Hartadi Sarwono said Thursday (13/12/07) that recent capital inflows to Indonesian capital markets could help to reduce upward pressure on inflation in Indonesia, Dow Jones reported.

"Inflows of funds result in the addition of liquidity (in several major markets and) tends to make the rupiah stronger and this is expected to reduce inflationary pressures in the future," Sarwono said.

Asked whether Bank Indonesia will follow moves by the US Federal Reserve and the European Central Bank to inject liquidity in their respective financial markets, he said only that the central bank's monetary stance is directed toward curbing inflation.

Bank Indonesia cut its benchmark rate by 25-basis points to 8% last week after inflation eased slightly to 6.71% on year in November from 6.88% in October.

## Govt. Buys Back Rp1.203T of Debt

Indonesia bought back Rp1.203 trillion (\$129.4 billion) worth of government bonds via an auction on Thursday in a bid to cut borrowing costs and stabilize debt costs, the finance ministry said in a statement Thursday (13/12/07) Reuters reported.

The ministry received a total of Rp5.164 trillion of offers from investors who wanted to sell bonds maturing between 2008-2012.

The finance ministry regularly manages government borrowing costs by buying back debt whenever bond prices fall.

"The market response was good. It can also improve investors' confidence in the domestic market as with the buyback the government has helped to maintain liquidity in the market while stabilizing bond prices," Rahmat Waluyanto, the ministry's Director General of Debt Management said.

## New Instruments to Help Banks with Liquidity

Bank Indonesia (BI) as the lender of last resort will introduce new financial instruments early next year to help the country's banks meet their short-term liquidity needs, the central bank's senior executive says, *The Jakarta Post* reported on Monday (10/12/07).

Central bank spokesman Budi Mulya said the facilities will include a wider variety of government bonds and central bank bills that can be used as underlying assets to obtain overnight lending from BI.

The bank will also improve the repurchasing agreement for the short-term trading and buying back of bonds and bills.

Mulya said the standing facilities would avoid banks having to trade large sums of their bond and bill holdings for quick cash, which may potentially create volatility in the markets.

"Banks won't have to outright sell their holdings. They can instead temporarily lend them in the central bank, and in return, they will get the liquidity they need," he said. Such standing facilities are known as marginal lending facilities.

BI deputy governor Hartadi A. Sarwono announced earlier that the central bank's plan to issue six- and nine-month bills, in addition to its usual one- and three-month bills.

The government also plans to issue short-term treasury bills, which will gradually replace BI's current bills.

## Consumer Confidence Improves: BI

Indonesian consumers last month were more confident about their income prospects over the next six months than they were a month earlier, the results of a Bank Indonesia survey issued Monday (10/12/07) showed, Dow Jones Newswires reported.

The central bank's Consumer Confidence Index rose 1.1 points to 101.3 points from October, but was down 0.2 points from a year earlier.

"Consumers were also less pessimistic on their job prospects," the central bank said on its web site.

Consumers also expected prices of goods and services to continue rising over the next three months, although such expectations weren't as strong as a month earlier.

Meanwhile, The Roy Morgan Rating shows consumer confidence for the third quarter of 2007 remained steady, increasing 0.1 points to 112.8 from the previous quarter, *The Jakarta Post* reported Monday. This level is 3.5 points higher than the 109.3 recorded in the same period of 2006.

The survey indicates that 31% of Indonesians (down 3%), said they are worse off than a year ago, and 16% (down 4%) said they are better off than a year ago. Those who said their circumstances had remained the same jumped from 46% to 53% in the third quarter.

## Indonesia Tops SEA Bourses

The Indonesian stock market has emerged as the front runner ahead of other regional bourses this year, charging to a year-to-date rise of 53.9% at the end of trading last week, *Business Times* reported on Monday (10/12/07). This compared to last year's gains of 55.3%.

Left trailing in its wake are markets in Malaysia (in second place with a 30.8% rise), the Philippines (up 25.6%), Thailand (up 23.8%) and Singapore (up 19.2%).

Noting the Indonesian bourse's sterling showing, a recent UOB Kay Hian report said that investors in Indonesian equities should make "a remarkable five-year composite annual growth rate (CAGR)" of about 45% beginning from 2002.

Meanwhile the Asian Development Bank (ADB) will provide \$300.7 million for the development of capital markets in Indonesia, ENP Newswire reported Monday (10/12/07).

The program will promote transparency and information disclosure in capital markets, enabling market valuation of fixed-income instruments.

It will also promote deeper and more liquid financial markets, improve market surveillance and investor protection, and strengthen governance and human resource capacity.

## US Offers \$19M Debt-To-Nature Swap

The US government has offered a debt-to-nature swap program for \$19.6 million of debt to help cope with damage in Indonesian forests, Asia Pulse reported Tuesday (11/12/07).

The first such offer from the US government is a form of US support in global efforts to cope with the problem of climate change especially in Indonesia, said David McCormick, an Under-Secretary of the US Treasury.

### INVESTMENT

## Korean Investors Eye Infrastructure Projects

Nearly 40 South Korean businessmen representing the country's major companies are visiting Indonesia to take a closer look at a number of infrastructure projects offered by the government, *The Jakarta Post* reported Tuesday (11/12/07).

The Korean contingent in the republic is part of the two countries' economic partnership agreement. The Korea-Indonesia partnership program was initiated in December 2006 to foster a mutual economic relationship between the two countries.

"Many Korean companies expressed their interests in railway development projects in the country during the meeting," the deputy minister for infrastructure and regional development at the office of the Coordinating Minister for the Economy Bambang Susantono said.

The Korea Development Institute's (KDI) managing director Kim Jay-Hyung said the Korean companies and the Indonesian government were currently discussing projects including those on railway and seaport construction, but he refused to elaborate further.

The deputy chief for infrastructure at the National Development Planning Agency, Dedy S. Priatna, said

the country's infrastructure development required a total investment of \$65 billion for the 2005-2009 period, while the government was only able to provide \$25 billion.

## **National Aluminium to Build \$3B Smelter**

National Aluminium Co., India's second-biggest producer of the metal, plans to build a \$3 billion smelter in Indonesia to tap the country's coal reserves, Bloomberg reported Monday (10/12/07).

The state-owned company expects to sign an agreement with the Indonesian government next month, ending two years of talks, Chairman C.R. Pradhan said.

Record crude oil prices have boosted demand for thermal coal from Indonesia, the biggest supplier of the fuel, as companies seek cheaper ways to produce electricity. Tata Power Co., India's third-biggest utility, in April paid \$1.3 billion for stakes in two Indonesian mines.

"The Indonesian government has assured us coal supplies," Pradhan said from New Delhi. "Coal is a matter of great concern for aluminium companies globally" because electricity accounts for a third of production costs.

## **Incentives Planned for Eco-Friendly Investors**

The government is planning to provide incentives to investors wishing to use environment-friendly technology, raw materials, energy and production process, an investment official said, Asia Pulse reported Tuesday (11/12/07).

Chief of the Investment Coordinating Board (BKPM) Muhammad Lutfi did not reveal the model of incentives but added the incentives are part of the government's effort to share the private sector's responsibility for conserving the environment.

So far, environment-friendly investment is made in the country's geothermal power plants, he said adding that the investment in the sector is expected to increase to \$2 billion in the next two to three years.

## **Mandom to Invest \$23M to Lift Capacity**

Publicly listed cosmetic company PT Mandom Indonesia will increase investment by Rp210 billion (\$23 million) to increase production capacity and sales in 2008-2010, Antara reported Monday (10/12/07).

The company is set to increase annual sales to Rp2 trillion a year from Rp1 trillion a year at present, Mandom Indonesia Vice President Sastra Widjaya said.

Widjaya said demand for cosmetics rose 5% - 10% annually in domestic and international markets.

He said next year, Mandom will expand market to a number of countries including India.

He said the company, which is operating at 95% of its installed capacity, exports 20% of its production.

## **Marubeni Plans Carbon Projects**

Marubeni Corp, Japan's fifth-largest trading company, plans to launch five to 10 carbon credit projects in Indonesia next year, reaping 3 million credits by 2012, a company source said on Friday (14/12/07), Reuters reported.

Marubeni, jointly with the University of Lampung, plans to capture greenhouse gas methane generated from palm oil and sugar cane plants in South Sumatra for use in power generation, it said.

Under the Kyoto protocol, countries can offset their carbon dioxide emissions by purchasing carbon credits in CO2-reducing projects in developing countries.

## STATE CONCERNS

### **Govt. to Approve Import of US Beef Products**

Indonesia has approved imports of beef and beef products from four livestock facilities in the United States, following a two-year ban, an agriculture ministry official said on Tuesday (11/12/07), Reuters reported.

Turni Rusli Syamsudin, director of veterinary public health at the ministry, said that beef products from two slaughter houses, one processing unit, and one storage facility in the US have met health, security and Islamic halal standards.

"Everything is fine, we will issue the official permit as soon as possible," Syamsudin told Reuters.

Indonesia re-imposed a temporary import ban on US beef and beef products in June 2005, following the discovery of a new case of mad cow disease in the US.

## SOEs

### **Govt. to Sell 49% Stakes in Garuda, Merpati**

The government expects to sell 49% stakes in both PT Garuda Indonesia and PT Merpati Nusantara Airlines next year, a government official said Friday (14/12/07), Dow Jones Newswires reported.

Said Didu, the secretary to the Minister of State Enterprises' Affairs, told reporters the government will sell the stakes in the two companies to strategic investors in a bid to improve the performances of the two airlines.

It is the latest in a long series of government statements in recent years concerning the privatization of the two debt-laden companies.

Didu said the stake sales are expected to finally come through next year, as the companies are close to closing debt-restructuring agreements with lenders.

Garuda is negotiating to defer the payment of \$750 million in debt to lenders.

Meanwhile, Merpati president director Hotasi Nababan said domestic and foreign investors including airline and leasing companies had expressed interest in bidding for the government's stake, he said, Asia Pulse reported Friday (14/12/07).

### **Semen Gresik May Issue \$1B Bond in January**

Indonesia's largest cement maker, PT Semen Gresik, may issue \$1 billion of bonds in January to finance the construction of new factories and supporting power plants, an official at the firm said on Monday (10/12/07), Reuters reported.

The state-owned firm plans to spend up to \$1.5 billion on two cement plants with an annual capacity of 2.5 million tons each in Sumatra and Java, as well as two power plants with a total capacity of 410 MW to support the operation.

"We are currently reviewing our financing options. It is likely that we will issue \$1 billion in bonds. We are hoping for it to happen as soon as possible, maybe in January," Darjoto Setyawan, the deputy chairman of the company, told Reuters.

"We have appointed JPMorgan as our financial adviser and maybe we will ask them to handle the bond issue as well," he added.

Gresik aims to increase capacity by about 40% by 2013 to 22.9 million tons. Last year it had around 16 million tons.

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

## PRIVATE SECTOR

### **Etisalat Buys 16% of Excelcom**

UAE telecom giant Etisalat said on Tuesday (11/12/07) it had bought 15.97% of third-ranked mobile phone operator PT Excelcomindo for \$438 million, Agence France-Presse reported.

"This investment represents an important step for Etisalat's international expansion strategy into Asia. The Indonesian market is one of the largest and fastest growing mobile markets worldwide," chairman Mohammed Omran said in a statement, which added his firm now operates across 16 countries.

Excelcomindo has around 13 million mobile subscribers in Indonesia, representing a market share of approximately 14% as of September 30, the statement said.

Etisalat will buy the stake from diversified Indonesian group Rajawali for \$438 million.

Rajawali, which has interests in areas ranging from plantations to department stores, said it received Rp3,592 a share for the stake, representing a 56% premium over its closing price on Tuesday.

Excelcomindo is targeting up to 14 million mobile phone users in Indonesia by the end of the year, up from 10.5 million at the end of July, its president said in September.

### **Hutchison Telecom Steps Up Network Rollout**

Hutchison Telecommunications International Ltd said it will accelerate the rollout of its mobile network in Indonesia with the assistance of PT Excelcomindo Pratama, XFN-ASIA reported Thursday (13/12/07).

It said Indonesian unit Hutchison CP Telecommunications (HCPT) signed a memorandum of understanding with Excelcomindo providing for the sharing of base station towers for up to 12 years.

Hutchison Telecom chief executive officer Dennis Lui said the arrangement with Excelcomindo will accelerate HCPT's network rollout in Indonesia and eventually make it a nationwide operator.

### **Strong November Vehicle Sales**

Sales of new passenger and commercial vehicle sales in Indonesia rose to 45,827 units in November from 31,258 in October, industry data released Thursday (13/12/07) showed, Dow Jones reported.

The data compiled by the association of Indonesia's car assemblers, Gaikindo, showed total sales during the first 11 months of the year reached 395,295.

Those made by the partnership of Toyota Motor and PT Astra International captured the largest market share at 35% during the January-November period, with 136,634 units sold.

The partnership of Suzuki Motor Corp and PT Indomobil Sukses International was placed second, with a 13.4% market share.

### **Hino: Indonesia Biggest Market Outside Japan**

Japanese truck and bus manufacturer Hino Motors Ltd. said Thursday its first-half sales in Indonesia had surpassed those in Thailand to become the largest market outside Japan, Xinhua reported Thursday (13/12/07).

Indonesia is expected to end 2007 as Hino's largest overseas market with estimated full year sales of 8,200 units to grab 15.5% of the market share in the segment, said Toshiro Mizutani, president director of local subsidiary PT Hino Motors Sales Indonesia (HMSI).

The company also said overseas sales will for the first time ever beat domestic sales this year.

## **Sales of Electronic Goods Predicted to Rise 21%**

Sales of electronic goods in Indonesia are predicted to reach Rp14.7 trillion (\$1.63 billion) in value or an increase of 21% from last year's Rp12 trillion, Antara reported Monday (10/12/07).

Secretary general of the Electronic Marketer Club Handojo Soetanto said in the first 10 months of this year sales already reached Rp12.2 trillion, exceeding total sales in the whole of last year.

Soetanto said sales have continued to pick up from month to month this year with monthly peak in July.

He attributed the increase in sales to improved purchasing power, especially in the regions, with soaring prices of plantation commodities like palm oil, rubber and coffee.

He said electronic goods producers plan to raise prices next year with the increase in production costs foreboding sales growth may be slower.

## **Duta Graha to Sell 30% of its Shares in IPO**

Construction company PT Duta Graha Indah hopes to earn Rp373.5 billion (\$40.3 million) from the sale of 1.66 billion shares or 30% of its shares in an initial public offering (IPO) it will soon launch, Antara reported Monday (10/12/07).

The shares will be listed on the Indonesian Stock Exchange on December 18, said Kris S. Widjojo, president of Dinamika Usahajaya, which together with PT CSLA Indonesia have been named the underwriters.

The two underwriters have been promoting the shares in road shows in Hong Kong and Singapore.

Duta Graha is set to chalk up Rp1.7 trillion in income next year, up from this year's target of Rp950 billion, Kris said.

This year the company is estimated to post Rp72 billion net profit, up from Rp31.02 billion last year.

### **BANKS**

## **5-Year Limit on Bank Resale Mooted**

Bank Indonesia (BI) is considering barring new bank owners from selling their stake within five years from the date the stake was acquired, an official said Thursday (13/12/07), Thomson Financial reported.

The central bank has been encouraging banks to consolidate under its development blueprint, known as the Indonesian Banking Architecture (API). This policy raises the chance for investors to acquire a bank in the country.

Under the API, banks must have a minimum capital of Rp80 billion by 2007 and Rp100 billion by 2010.

Currently, six banks are still unable to meet the minimum but the central bank is optimistic that they are willing to increase their capital, BI deputy governor Muliaman Hadad told reporters.

He said in the event that a bank is acquired, the new owner must disclose what they are planning to do with the bank going forward.

"BI does not want that an acquired bank is strengthened just to be sold later," Hadad said.

BI has said that the ideal number of banks in Indonesia should be around 60-70 by 2010 compared to over 130 now.

## Temasek Prefers to Merge BII and Danamon

Singapore's Temasek Holdings prefers to merge Bank Internasional Indonesia (BII) and Bank Danamon pending approval from the Indonesian banking regulatory bodies, BII said in a statement Thursday (13/12/07), Thomson Financial reported.

Temasek, through Fullerton Financial Holdings (FFH), is the majority shareholder of Sorak Consortium. Sorak owns 56.13% of BII shares. Temasek recently raised its stake in Sorak to 75% from 50%.

As of December 11, Bank Danamon is 68.05% owned by Asia Financial (Indonesia), also a subsidiary of FFH.

"FFH's current preferred option is to explore a merger between BII and Danamon subject to further evaluation and clearance from the regulatory bodies," BII said.

Its key shareholder has submitted an ownership structure adjustment plan to Bank Indonesia to comply with the central bank's single presence policy (SPP), BII said.

Under the Indonesian central bank's single presence policy, a bank owner may own only one bank.

The regulation will take effect by the end of 2010 but the central bank has set an end-2007 deadline for bank owners to submit a proposal to resolve any shareholding issues they may have.

## POWER

### Gas, Electricity Firms Plan LNG Terminal

Gas distribution firm PT PGN and electricity firm PT PLN plan to jointly build a liquefied natural gas (LNG) terminal on Java, a senior PGN official said on Friday (14/12/07), Reuters reported.

PLN and PGN had said previously that they would build separate LNG terminals, or regasification projects, at a cost of around \$400 million for each terminal to secure future gas supply to power plants and industries on Java.

"We plan to build the LNG terminal in cooperation between PLN and PGN with possible capacity of 1.5 million tons per year," Sutikno, PGN president director, told reporters. He said the capacity could be higher as it depends on the availability of the gas.

"PLN and PGN are still in talks at the moment. The cooperation is for efficiencies. The terminal is expected to be built on Java island," he added.

"We will talk to gas producers in the country, including Total and BP," he said. He gave no time frame as to when the project would be built.

## **AES to Invest \$400M on Biomass Power Projects**

Britain's Applied Energy Services (AES) plans to build 20 units of biomass power plants with a total investment of \$400 million, Asia Pulse reported Friday (14/12/07).

Each unit will have a generating capacity of 10 to 15 MW, president and chief executive officer of AES Paul Hanrahan said.

AES will, in cooperation with state-owned electricity company PLN, start constructing a unit in Tababan, Bali, next year, to be operational in 2009, Hanrahan said.

PLN will buy the power to be produced by the plant with the basic material - rice husks - to be supplied by PT Agrorini, he said.

### **OIL & GAS**

## **Pertamina Picks BNP to Seek \$1B: Source**

State oil and gas company, PT Pertamina, has appointed BNP Paribas SA to help arrange up to \$1 billion worth of financing, a source at the oil firm said on Tuesday (11/12/07), Reuters reported.

Pertamina plans to lift its spending on upstream activities by 20% to Rp12 trillion (\$1.30 billion) in 2008 amid efforts to boost flagging oil output in the Southeast Asian nation.

"Pertamina is seeking financing and has appointed BNP Paribas. We are drawing up the terms of references now and we are in the middle of the process," a company official who declined to be identified told Reuters.

Out of a total of Rp12 trillion to be spent next year, Pertamina plans to spend Rp4 trillion to develop the Cepu block, which it operates jointly with ExxonMobil Corp.

Indonesia hopes that the giant onshore Cepu block, located between Central Java and East Java provinces, will provide a big boost for the country's flagging oil and gas output.

Pertamina plans to boost its overall oil production by 16.4% to 170,000 barrels per day next year as the government tries to limit the impact of high oil prices on its budget.

## **Portable Oil Refineries Planned for Cepu**

State-owned oil and gas company PT Pertamina and its partner, Mobil Cepu Ltd, a subsidiary of US oil and gas giant ExxonMobil, have been granted approval by the Indonesian government to build three portable oil refineries in the Cepu Block area, Energy and Mineral Resources Minister Purnomo Yusegianto said Thursday (13/12/07), Thomson Financial reported.

Yusegianto said each portable refinery will have the capacity to process 6,000 barrels of oil per day. The refineries will process crude oil produced from the Cepu Block. The block is expected to start producing oil in late 2008.

Mobil Cepu and Pertamina EP, a wholly owned unit of Pertamina, are the joint operators of the Cepu Block, Indonesia's largest oil project in 30 years.

Oil production from Cepu field is expected to rise to an average 160,000 barrels of oil per day, or nearly 16% of Indonesia's current nationwide output, in two-three years' time from the start of production.

Meanwhile Pertamina and ExxonMobil have hired BNP Paribas SA as financial adviser to seek a loan of \$1 billion to develop the Cepu block, Asia Pulse reported.

Pertamina and ExxonMobil are each 45% shareholders of the major oil block, which is expected to turn out around 20,000 barrels of crude oil a day when it starts operation by the end of 2008. Local governments hold the remainder of shares in the operation.

The project will need an investment of around \$2.5 billion in the next several years, up sharply from earlier estimates of \$1.2 billion, Pertamina's finance director Frederick Siahaan said.

Pertamina and ExxonMobil will put up part of the fund in equity, Siahaan said, adding Pertamina has been ready to provide Rp4 trillion (\$432 million).

## **BP Migas Approves Chevron Deepwater Plan**

Upstream regulator BP Migas has approved Chevron's plans for its deepwater gas fields in offshore East Kalimantan and initial gas output is expected by 2012, a senior official said Wednesday (12/12/07), *Platts Commodity News* reported.

Chevron's East Kalimantan gas fields are expected to be on stream by 2012 and ramp up to reach peak production of 800 million cu ft/d of gas by 2015, Achmad Luthfi, BP Migas' deputy chief, said.

Chevron's five deepwater areas include Ranggas and Gendalo, which are located in the the Rapak and Ganal PSCs, respectively, and Gehem which straddles both the PSCs.

Gehem and Gendalo have potential reserves and Chevron will focus on developing both fields, which are located in the Makassar Strait, in a bid to increase production, the company's spokeswoman said earlier.

Chevron plans to invest at least \$6 billion to develop its deepwater areas in Makassar Strait until 2012.

Chevron supplies gas to the Badak LNG plant in Bontang to meet Indonesia's LNG commitments to its buyers, such as Japan, Taiwan and South Korea.

## **Pertamina EP Earmarks Rp7T to Boost Production**

PT Pertamina EP, a wholly-owned unit of state-owned oil and gas company Pertamina, said Monday (10/12/07) it has earmarked Rp7 trillion in capital expenditure for next year to boost oil production, Thomson Financial reported.

"We have been tasked (by parent company Pertamina) to boost our production to 129,000 barrels of oil per day next year from a projected 110,000 bopd this year," Pertamina EP's president Tri Siwindono told reporters.

Last year, Pertamina EP's oil production stood at 102,000 bopd.

A large chunk of the capex will be used to finance the company's oil and gas exploration activities, he said.

Pertamina EP's Pondok Tengah oil and gas field is expected to produce 7,000 bopd or 12,000 barrels of oil equivalent per day next year from an average 4,000 bopd at present, he said.

Oil production from Pondok Tengah began in the middle of last year. The field has the potential to produce 58.6 million barrels of oil over 20 years and an average of 16 million standard cubic feet of gas per day for 14 years.

Separately, Pertamina president Ari Soemarno said that in the first ten months to October this year the company's revenue stood at Rp300.3 trillion while net profit totaled Rp19.8 trillion.

## MINING

### **Bumi Targets Coal Reserves of 1.5B Tons in 2008**

Coal miner PT Bumi Resources said Friday (14/12/07) it is targeting proven coal reserves of 1.5 billion tons next year, up from about 1.09 billion tons at the end of 2005, Thomson Financial reported.

"The 2008 reserves level is equivalent to 15 years of projected 2012 production capability of 100 million tons per annum," said Bumi's investor relations official Dileep Srivastava.

He said the higher target reflects the results of exploration and higher coal prices. Higher prices make low-grade coal economical to mine.

Bumi owns controlling stakes in Indonesia's largest and fourth-largest coal producers, PT Kaltim Prima Coal and PT Arutmin Indonesia.

Srivastava said Bumi may produce 56 million tons of coal this year, 12% more than last year. The company initially projected this year's output at 58 million tons.

### **No Plan to Limit Tin Exports - Trade Minister**

The government has no plan to limit tin exports, but will instead continue to improve export controls and the inter-island tin trade to prevent illegal tin mining, Trade Minister Mari Elka Pangestu said Monday (10/12/07), Dow Jones reported.

"We will stick with the existing rules that there will be no limitation of exports and only legal mining companies that are certified will be allowed to export (tin)," Pangestu said on the sidelines of the UN climate conference in Bali.

Pangestu's statement comes amid confusion in the industry following the imposition of tin export quotas by Indonesia's main tin-producing region of Bangka Belitung.

Pangestu said the government will stick to current regulations for preserving the environment.

Analysts and market participants have long speculated that Indonesia would limit tin exports to control the price of the commodity on the world market.

In 2006, Indonesia exported just under 120,000 tons of tin.

Tin prices have gained more than 50% this year, partly on concerns over tin supply from Indonesia, the world's second biggest producer of tin after China, and the world's largest tin exporter.

### **Bumi Bids \$396M for Aussie Zinc Miner**

PT Bumi Resources, the country's largest coal producer, said it offered A\$455 million (\$396 million) in cash for Australian zinc miner Herald Resources Ltd as it looks to diversify its mining interests, Reuters reported Wednesday (12/12/07).

Bumi, part of Indonesia's politically well-connected Bakrie group, said on Wednesday it offered A\$2.25 a share for Herald, 23% above the target's A\$1.83 closing price on Tuesday.

Herald, whose stock surged as much as 29% to A\$2.36 following the announcement, said the bid was unsolicited and advised shareholders to take no immediate action.

Strong demand for industrial raw materials, driven by China, has turned Australia, with its wealth of mineral resources, into a quarry for foreign firms.

But Herald's main asset is its 80% interest in the undeveloped Dairi lead and zinc mine in Sumatra, which has not yet won a forestry permit to start work.

State-controlled nickel producer PT Aneka Tambang holds the other 20% of Dairi.

"Bumi recognizes Dairi as a long-term strategic asset and is willing to invest the significant time and resources required for regulatory approval and mine development to unlock the full potential of the project," it said.

Herald said last month it saw progress being made over approvals for the project from Indonesian authorities, and planned a A\$100 million equity offering to raise funds.

## Coal Exports May Reach 179M Tons Next Year

Indonesia will export about 179 million tons -- 75% of total coal production -- next year to benefit from the surging demand from overseas buyers, especially China and India, *The Jakarta Post* reported Wednesday (12/12/07).

Chairman of the Indonesian Coal Producers Association Jeffrey Mulyono said Tuesday the country's total production would increase by 9%, reaching 234 million tons next year from about 215 million tons this year.

Next year, Mulyono added, of total coal production, 55 million tons would be allocated for the domestic market, while the remaining 179 million tons would be for exported.

Total coal sold locally next year would be only slightly higher than the 50 million tons recorded in 2006.

However, the demand curve would be driven sharply upwards by the end of 2009 with some 20 coal-fired power plants -- part of a "crash" power program of state-owned electricity company PLN -- coming online.

"The new coal-fired power plants will be able to begin operation only after 2008, so (coal) for the local market next year will not be that big. So we can still use the rest for export," Mulyono said.

## Tambangraya Set for Strong Debut

PT Indo Tambangraya Megah, a major coal producer, is expected to trade higher on its stock exchange debut on Monday on the bullish outlook for the coal industry, analysts said, Thomson Financial reported Friday (14/12/07).

The uptrend in coal prices is expected to continue through the next few years given strong demand for coal both in the domestic and overseas markets, particularly China and India.

In its initial public offering, Indo Tambangraya sold 225.99 million shares, or 20% of its enlarged capital, at Rp14,000 each. The IPO price was at the upper end of the Rp11,000-15,000 range set earlier.

Indo Tambangraya is 99.9%-owned by PT Centralink Wisesa, which in turn is 95%-owned by Thailand's Banpu Public Co Ltd. The majority of Banpu's revenue is contributed by Indo Tambangraya.

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