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REPUBLIC OF INDONESIA

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**Trade and Investment News<sup>1</sup>, 17 September 2007**

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## POLITICS

### Climate Conference Invites for Arnie, Gore

Indonesia has invited Californian Governor Arnold (Arnie) Schwarzenegger and environmental activist Al Gore to the December climate change conference, in a further attempt to raise the meeting's profile and broker an agreement on global warming, *The Australian Financial Review* reported on Wednesday (12/9/07).

Invitations have also been sent to finance ministers of the world's 20 largest economies for the annual United Nations meeting, which will be hosted by Indonesia in Bali this year. The conference is scheduled to discuss a platform to replace the Kyoto Protocol, which expires in 2012.

A US embassy source in Jakarta confirmed invitations had been sent to Gore and Schwarzenegger, but it is unclear if either will attend.

Hopes for a major breakthrough at the Bali meeting were raised at APEC, when leaders agreed to negotiate any new agreement within the UN framework.

Gore, a former US vice president, is credited with raising climate change awareness and Schwarzenegger has pushed tough emission laws in California.

The addition of finance ministers from the G20 also marks a shift to focus on the costs of tackling climate change.

The major sticking point in negotiations so far has been a refusal by the United States and Australia to consider making large cuts in greenhouse gas emissions unless developing economies such as China and India also participate.

### Iraq Learns From Indonesia

Iraq hopes Indonesia will help train its central and provincial bureaucrats to govern democratically, and share its experiences in fighting terrorism, *The Jakarta Post* reported on Tuesday (11/11/07).

Visiting Iraqi deputy foreign minister Labeed M. Abbawi said Iraq could learn from Indonesia because it had successfully overcome conflicts in its territory and transformed itself from a military-led government to a prosperous democratic country.

"Our constitution has mandated that we strengthen our local government. Hopefully by the end of the year, we will have a provincial election, so we can use Indonesia's experience to enhance the capacity of our officials at the central and provincial levels," he told the *Post*.

Abbawi had talks with Indonesian Foreign Ministry officials, including Secretary General Imron Cotan, Director General for Multilateral Affairs Rezlan Izhar Djenie, and Director General for Asia, Africa, and Pacific affairs Primo Alui Joeliyanto, to discuss concrete ways for Indonesia to help Iraq.

Aside from capacity building for its officials, Abbawi said that Iraq also wanted to learn from Indonesia's experience in fighting terrorism.

### President Appeals to Aussies

President Susilo Bambang Yudhoyono has issued an extraordinary appeal for Indonesians and Australians to look beyond the "tyranny of stereotypes" and make full use of the opportunities in each other's countries, *The Age* newspaper reported on Tuesday (11/9/07).

Speaking in English and cutting the usual policy-laden material of presidential speeches, Yudhoyono celebrated his 58th birthday on Sunday night at a dinner launching a new series of "future leader"

dialogues among young people from the Asia-Pacific region, run by Melbourne University's Asialink program.

The president spoke warmly of Australia's help during Indonesian emergencies and individuals known among Indonesians, including the late Steve Irwin, killed by a stingray while filming on the Barrier Reef last year.

"So many Indonesians were inconsolable at the death of Steve Irwin, that lovable, cheerful and nature-loving Australian," he said. "We love him and treasure his legacy. I want to stress that we are talking of real flesh-and-blood individuals with extraordinary human qualities — not stereotypes. They are the ones who matter."

He hit out at "populist politicians and a few sensationalist members of mass media on both sides" who created suspicions, prejudice and false stereotypes.

Yudhoyono said the Bali bombers had been mistaken if they thought they could drive a wedge between the two peoples. A big reservoir of goodwill remained among Indonesians towards Australians. "Hence, I urge Australians to come to Indonesia and make it your second home," he said. "I want to see more Australians travel, play, rest, study, research, and make new friends in Indonesia.

"Those who are interested in Asian studies can make Indonesia their gateway to deeper knowledge. To the artists among you, come to Bali and find out how the artists of Europe found the fullest expression of their soul on that island paradise. To the entrepreneurs, come and avail yourselves of our latest package of investment incentives."

Mentioning that his own son, Edhie Baskoro, was a graduate of Perth's Curtin University of Technology, he said the development of Indonesia's human resources owed a lot to Australian educational institutions.

"I would like more and more Indonesians to come and study here in Australia — by scores of thousands every year if possible," he said. "I should like more and more Indonesian businessmen to come here and look into opportunities in a strongly growing Australian economy, and find ways to strike up joint ventures that will also benefit Indonesia.

"In sum, let us expand and intensify our people-to-people contacts in all fields, especially in trade and investment, and in culture and education."

## **Singapore, Jakarta in New Pact**

Singapore and Indonesia on Monday (10/9/07) signed an agreement to create more exchanges and collaborations in information and communication, Xinhua news agency reported.

The new Memorandum of Understanding (MOU) replaces one on broadcasting and communications signed in 1989, which covered areas such as radio, television and films, government information service, and press and publications.

The scope will be expanded under the new MOU to include cooperation in the fields of information and communication technology (ICT) and the postal service.

This will enable Singapore agencies, such as the Media Development Authority and Infocomm Development Authority to build closer relations with their Indonesian counterparts.

The MOU will also facilitate and promote media collaborations such as co-production, marketing and distribution of audio visual and digital media content.

The two countries will also work together on developing e-Government, e-Commerce, e-Business and ICT infrastructures.

"The MOU provides a framework. It signals strong political commitment on the part of the Indonesian government and the Singapore government that we want to cooperate," Singapore Information, Communications and the Arts Minister Lee Boon Yang told reporters.

The two countries will set up a joint committee, headed by senior government officials, to implement the objectives set out in the pact.

## Execution Awaits Bali Bomber

The firing squad has been prepared and Supreme Court Chief Justice Bagir Manan said on Monday (10/9/07) convicted terrorist bomber Amrozi bin Nurhasyim had reached the end of legal efforts to stop his execution, *The Jakarta Post* reported.

"According to the law, there is no such thing as a second case review request," Manan told reporters. "A case review can only be requested once."

Asked if that meant Amrozi would soon be executed, he replied: "You can answer (that) yourselves."

Amrozi was sentenced to death for his role in the 2002 bombings in Bali, in which 202 people were killed.

One of Amrozi's lawyers, Achmad Mihdan, said his team had already drafted documents for a second review of their client's case following the Supreme Court's refusal to move the trial to Cilacap in Central Java.

Along with his fellow convicted bombers Imam Samudra and Ali Ghufron, Amrozi is being held at the maximum-security Batu Prison on the Nusa Kambangan Island, south of Cilacap.

However the lead lawyer for Amrozi, Achmad Michdan, said a new challenge to the sentence was being prepared. "We will of course request another case review," Achmad told the Antara news agency. "We have already asked the Supreme Court to evaluate the review trial in the Denpasar district court."

Michdan also told Reuters that his clients would not seek a presidential pardon, their only remaining means of stopping the executions. "The lawyers will not ask for pardon, this is what the clients want. They are aware of the risks of their choices," Michdan said after visiting the three.

## REGIONS

### 17 Dead, 15,000 Buildings Damaged in Sumatra

Seventeen people were killed and more than 15,000 buildings collapsed or were seriously damaged by a series of massive earthquakes striking Sumatra last week, authorities said on Saturday (15/9/07).

An initial 8.4-magnitude quake struck at dusk off Sumatra's west coast on Wednesday and was followed by a series of major aftershocks, jolting the coastal provinces of Bengkulu and West Sumatra most severely, Agence France-Presse reported.

By Saturday, rescue workers were still scouring rubble to hunt for victims feared to be trapped under collapsed houses, Rustam Pakaya from the health ministry's crisis centre told EIShinta radio. "The death toll was now at 17, and 88 people were injured," he said.

In Bengkulu, nearly 2,000 houses were totally flattened and nearly 4,000 others badly damaged, said Bowo Santoso from the governor's disaster rescue center. About 90 local hospitals and clinics were also damaged, he added.

In West Sumatra, more than 9,700 houses collapsed or were too badly damaged to be inhabitable, said Suryadi from the disaster rescue center there. More than 100 mosques and about 20 school buildings were also damaged, he said.

Meanwhile Hercules transport planes were to try to drop aid on several islands in the Mentawai group off Sumatra which were badly hit by the quake and a small tsunami, said an official in the city of Padang.

## Indonesia Resumes Sharing Bird Flu Samples

Indonesia had resumed sending samples of the bird flu virus infecting humans to the World Health Organization on Tuesday (11/9/07), Agence France-Presse reported.

Indonesia said last month that it had stopped sending samples until it was guaranteed access to affordable medicines to treat victims of the deadly virus, though it then shared one to prove it had not mutated.

Scientists carefully monitor the samples to check for mutations that could allow the H5N1 virus to spread easily among humans, leading to a global pandemic with the potential to kill millions.

"Indonesia is now sharing viral materials... There are two cases that I know have or will be made available to the WHO," said David Nabbaro, the UN system coordinator for avian and human influenza.

He told reporters on the margins of a two-day meeting between the Indonesian government and its partners in fighting avian influenza that sharing viral materials was vital for public health. "But countries got very uncomfortable about sharing data and samples when there was no certainty that what they are sharing would be used to their benefit," he said.

Indonesia's welfare minister Aburizal Bakrie confirmed that Indonesia was now sharing the virus material, with two samples recently sent on.

## E. Java Raises Alert Status for Volcano

Scientists on Wednesday (12/9/07) advised people to maintain a 5-km safety zone around a volcano that has become more active in densely-populated East Java, Agence France-Presse reported.

The alert status on Mount Kelud, considered one of the most dangerous on Java, was raised late Tuesday to "beware", the second of a four-level warning system, the vulcanology office said on its website.

The temperature of the water in the crater has been on the rise, while its color has changed from its usual green to yellow in some areas and a blue-white in others, it said.

The volcano's slopes themselves are sparsely inhabited but the peak is a popular domestic tourist destination and is located on a densely-populated plain.

The 1,731-meter Mount Kelud last erupted in 1990. Eruptions can be particularly devastating as the water in the crater spilling out creates mudflows known as lahars. More than 15,000 lives have been claimed by the volcano since 1500, including around 10,000 deaths in a massive 1568 eruption.

## ECONOMY

### Foreign Buyers Return

Foreign investors returned to the market for government-backed paper and once more become net buyers last week. Figures showed that foreigners bought a net Rp1.46 trillion (\$155.2 million) of government bonds in the first week of September.

Data from the Finance Department showed foreign investors increased their holdings of Indonesian government paper by 2% in the first week of September to Rp73.53 trillion, or about 16% of total tradable government bonds, Dow Jones Newswires reported.

Retail investors meanwhile bought close to \$1 billion in government bonds on Monday (10/9/07), with nearly double the number of individual orders for the government's third ever retail bond sale.

Of the buyers, 21% described themselves as housewives, ordering Rp1.66 trillion of the bonds, Finance Minister Sri Mulyani Indrawati said when announcing the results of the sale. The four-year ORI003 bonds carry a 9.4% annual coupon.

Indrawati welcomed the increasing interest from private investors despite the recent market jitters, which, she said, further proved that there were alternative ways to deepen Indonesia's bond market, *The Jakarta Post* reported.

The bond sale is part of the government's efforts to generate Rp62.3 trillion in net bond sales this year to help finance the higher deficit of Rp61.9 trillion under the revised budget. Up to August 1, the government had sold Rp53 trillion worth of bonds.

On the investment front, Suzuki Motor Corp. made Indonesia its base for the production of the hatchback Suzuki Swift for Southeast Asian markets, *Bisnis Indonesia* reported.

The daily quoted PT Indomobil Suzuki International's president Subronto Laras as saying the move is expected to boost the utilization rate of Suzuki's plant in Indonesia to 90,000 units per year. The plant has a capacity of 140,000 units, the report said.

Sales of new vehicles in Indonesia rose 7.9% on month and 48% on year in August to 41,448 units, industry data showed Tuesday, according to Dow Jones.

Data compiled by the Indonesian Car Maker Association Gaikindo showed August sales were the highest since the government more than doubled fuel prices in October 2005, which stoked inflation and led the central bank to raise its benchmark rate to as high as 12.75%.

The Jakarta Stock Market composite index had a relatively quiet week ahead of the Ramadhan fasting month, closing the week 0.1% up on the day at 2,225.61, back around the level it had reached before the US subprime mortgage crisis sent it tumbling below 2,000. The rupiah was trading at 9,380/9,384 to the US dollar.

The Jakarta Stock Exchange meanwhile announced that it would merge with the Surabaya bourse to create a single Indonesian market with capitalization of some Rp2,100 trillion (\$223 billion).

Jakarta stock exchange president Erry Firmansyah said the Jakarta Stock Exchange currently had a capitalization of about Rp1,500 trillion, adding that the move would improve liquidity.

## **BUSINESS BRIEFS**

### **MACROECONOMY**

## **Foreigners increase Bond Holdings – Govt.**

Foreign investors bought a net Rp1.46 trillion (\$155.2 million) of Indonesian rupiah government bonds in the first week of September, official data showed on Thursday (13/9/07), amid improving investor confidence.

Foreign investors had previously reduced their holdings of Indonesian assets, including government bonds, as the subprime mortgage crisis in the US roiled global financial markets.

But data from the Finance Department showed foreign investors increased their holdings of Indonesian government paper by 2% in the first week of September to Rp73.53 trillion, or about 16% of total tradable government bonds.

"It shows improving confidence in emerging markets, including Indonesia," Francis Indarto, head of global markets at Permata Bank, was quoted as saying by Reuters.

"Government bond yields also remain attractive. The US Federal Reserve is expected to cut interest rates in its September 18 meeting. This should give room for BI (Bank Indonesia) to lower its key BI rate further," he said.

## **Rp9.367t Raised from Retail Bonds**

Indonesia received strong demand for its third retail bond issue, raising nearly \$1 billion, as investors switched to less risky assets, Finance Minister Sri Mulyani Indrawati said on Monday (10/9/07).

Indrawati said the government had received incoming bids of Rp9.367 trillion (\$997.5 million) for the four-year paper, which offers a 9.4% coupon rate, and had accepted all of them.

"There was a strong demand for the third retail bond issue, because of uncertainty that means the market prefers a lower risk investment," she was quoted as saying by Reuters.

The government's sales of retail bonds are aimed at expanding its investor base and funding the 2007 deficit, which is forecast at 1.5% of gross domestic product.

The government sold Rp6.23 trillion in three-year bonds to retail investors in March, its second such issue, on strong demand tied to expectations of rate cuts.

The benchmark one-month interest rate, also known as the BI rate, has remained at 8.25% since July.

## **January-July Cigarette Excise Up 17.5%**

Purchases of excise stamps by Indonesian tobacco companies rose 17.5% in the first seven months of 2007 from a year ago, signaling expectations of strong growth in the sector, industry data showed on Wednesday (12/9/07).

The excise stamps are used for future production and are thus an indicator of anticipated consumer spending.

The companies purchased Rp24.6 trillion (\$2.61 billion) of excise stamps in the January to July period, up from Rp20.3 trillion a year ago, Reuters reported.

The government has said it aims to raise Rp42 trillion from excise tax this year, the bulk of which will come from cigarettes.

Cigarette output in the world's fifth largest tobacco market is expected to rise 3% to 224 billion sticks this year.

The country's top three cigarette producers -- PT Gudang Garam, PT Handaya Mandala Sampoerna and privately held PT Djarum -- accounted for 76.5% of the industry's stamp purchases.

## INVESTMENT

### Merged Bourses to Offer Investment Options

The planned merger of the Jakarta Stock Exchange (JSX) and Surabaya Stock Exchange (SSX) will not only improve trading efficiency, but will also offer more investment options to both local and foreign investors, a senior official of the Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK) said.

"In addition to an improvement in the bourse's operation, the merger will give investors a wider range of investment alternatives," Arif Baharudin, head of the agency's securities transactions department, said Wednesday (12/9/07), according to *The Jakarta Post*.

With the merger, the stock exchange will provide a wider range of investment options under a one-roof trading service, he said.

Baharudin said that with the merger, product development would become easier.

After years of preparation, the JSX and SSX operators finally agreed Tuesday (11/9/07) to gradually merge the two bourses beginning end of October.

Under the plan, the merged bourses will operate under a new name, the Indonesian Stock Exchange, which will combine all of the two bourses' operations and assets, giving it a total capitalization of Rp1,850 trillion (about \$196 billion).

The two exchanges have until January or February to totally merge their trading activities under one roof. The merger plan will not affect the existing boards of directors and commissioners, as they will remain in office until October 30 next year, when new boards of directors and commissioners will be elected.

"We are giving a transition period of two years to ensure that the merger process proceeds smoothly," JSX president Erry Firmansyah said.

At present, JSX focuses its activities on the trading of equity stocks, and has a market capitalization of Rp1,500 trillion, while SSX mainly handles bond trading, and has a capitalization of about Rp530 trillion.

## STATE CONCERNS

### Govt. to Push Cooperation Benefits for Australia Trade Pact: Minister

Indonesia will push hard to win cooperation benefits from Australia as part of a free trade deal between the neighbors expected to be negotiated from next April, Trade Minister Mari Pangestu said Wednesday (12/9/07).

President Susilo Bambang Yudhoyono and Australian Prime Minister John Howard agreed to launch a feasibility study on the deal during a visit by Howard in July.

Pangestu said the leaders' agreement had been "a breakthrough" in bilateral trade relations.

The study should be completed by April 2008, when negotiations should then begin with the issue of moving skilled people between the nations "something Indonesia would want to have in its agreement", Pangestu was quoted as saying by Agence France-Presse.

Any arrangement should be linked to capacity building in Indonesia, such as assistance with training, she said.

This was "what we negotiated hard with the Japanese, and we'll do the same with the Australian agreement," she said, referring to Indonesia's first free trade pact signed during a visit by Japan's then-premier Shinzo Abe last month.

Cooperation to build capacity is crucial for developing nations in such deals, she said.

"When you negotiate between a developing and developed nation that's always what a developing country would want, so you can optimize the benefits you're getting," she said.

Zero tariffs on fruit, for instance, would mean nothing if a country cannot meet strict phytosanitary requirements, while workers may need to speak English, so "this would then be integrated into the cooperation component".

Pangestu also said that Indonesia would probably negotiate only a "very limited" number of bilateral trade pacts. "We think the main game should be multilateral and regional," she said.

## 2007 Worker Remittances Seen Up

Money sent home by Indonesians working overseas is likely to rise 41% to \$4.8 billion this year from last year as more workers seek jobs abroad, an official said Thursday (13/9/07).

Arini Rahyuwati, who heads a unit monitoring workers remittances at the state agency for overseas workers, said Indonesian workers overseas sent \$3.4 billion home last year.

They sent \$2.7 billion in the first half of this year, up 108% from the year-ago period, and the amount is expected to rise to about \$5 billion next year, Rahyuwati told Reuters in an interview.

According to government statistics, some 5 million Indonesians, or about 2% of the population, work overseas.

The agency data showed Indonesia is likely to send 700,000 new workers abroad annually in the coming years compared with 450,000 workers a year in the past few years.

The higher remittances come as some of the country's major commercial banks such as Bank Central Asia (BCA) and Bank Negara Indonesia (BNI) are seen expanding their services to capitalize on growing demand for banking services from Indonesians working overseas.

SOEs

## Garuda's Business in Italy Steady

The European Union's (EU) ban on Indonesian airlines flying to member countries has had a very limited impact on Garuda Indonesia's business in Rome, an envoy said.

"Though we (haven't) had any Garuda flights to Rome since 2005, the national flag carrier still operates a sales office in the city. According to Garuda, (the ban) has had a very limited impact on sales in Italy," the Indonesian embassy's chargé d'affaires Djafar Husein told *The Jakarta Post* on Monday (10/9/07).

Husein said Garuda's office in Rome sells domestic air tickets to Italians wanting to fly between cities in Indonesia. "At first, according to Garuda, there was a slight decrease in sales, but business is picking up," he said.

Indonesia recently sent a delegation to the EU headquarters in Brussels to ask officials to lift the ban imposed in July. In recent months, Indonesian officials have been working in partnerships with organizations including the peak ICAO to improve air safety in the country.

For Indonesia, the 27-member EU represents an important tourism market. Every year approximately 600,000 EU tourists visit Indonesia, most of whom holiday in Bali.

## Firms to be Recapitalized to Aid SMEs

The House of Representatives has approved plans to recapitalize two state firms tasked with providing loan insurance to small- and medium-sized enterprises (SMEs), which employ the majority of the labor force, officials said on Wednesday (12/9/07).

The government will inject a total of Rp1.45 trillion (\$154 million) into the two state firms to allow them to offer more loan insurance for banks in case their loans to SMEs turn sour.

The scheme is part of government efforts to help boost financing for SMEs, which employ the majority of the country's 100 million strong labor force, officials said.

"The aim is to increase the capability of (the firms) in providing guarantees on bank loans extended to small- and medium-sized firms," Sahala Lumban-Gaol, deputy minister in charge of financial issues at the office of the chief economics minister, told Reuters.

Out of the Rp1.45 trillion fund, the government plans to inject Rp850 billion into PT Askrindo and the remaining Rp600 billion into Perum Sarana Pengembangan Usaha.

Finance Minister Sri Mulyani Indrawati told a parliamentary hearing late Tuesday (11/9/07) that SMEs play an important role in the economy. Such firms are defined as those with annual sales of a maximum \$15 million.

"Around 99% of businesses in Indonesia are run by small and medium firms. Many of them often find it hard to obtain bank loans," she said without elaborating.

Bank Rakyat Indonesia (BRI) is currently the market leader in lending to SMEs. The state bank has the biggest market capitalization among lenders on the Jakarta Stock Exchange.

Other banks such as Bank Danamon however are stepping up efforts to tap the lucrative loan market as they typically charge higher lending rates compared to loans to bigger companies due to the small amount involved in each credit.

The government expects banks to increase loans to SMEs to help reduce chronic unemployment in the country.

## Local Carriers Take Action on Pilot Shortage

Aiming to avoid lost opportunities and ensure flight safety, the country's major airlines are investing in pilot training.

National flag carrier Garuda Indonesia is planning to establish an aviation school expected to open next year, a Garuda official said.

"We now have about 530 pilots. Most of them are highly experienced. The strong overseas demand for our pilots is partly because they are top quality," Garuda spokesman Pudjobroto told *The Jakarta Post*.

The country's only aviation school, the Indonesian Aviation Institute (STPI), can produce 45 pilots per year, much less than the current demand for its graduates. The Transportation Department reported that as of the end of June alone, demand for pilots, including from abroad, had reached 535.

"Right now, we are still awaiting a license to establish the Garuda aviation school, which we expect to be up and running early next year," Pudjobroto said.

Mandala Airlines president director Diono Nurjadin also said pilot shortages had created new opportunities for investment in pilot education. "There are opportunities for investing in pilot training as the demand is growing rapidly. Surely there are plenty of investors who will be interested," he said.

Adam Air is also moving to invest in a training center. "We will open our own training center next year, where we plan to provide four flight simulators. We will install a Boeing 737-400 simulator, and we may also consider an Airbus A320 simulator," Adam Air president director Adam Suherman told the *Post*.

## **Gresik August Sales Up 3.8% Year-on-Year**

State-owned PT Semen Gresik's domestic sales rose 3.8% last month to 1.48 million tons from a year ago, data from the country's cement association showed on Friday (14/9/07).

The country's cement consumption rose 11.4% to 3.4 million tons last month, Reuters reported.

Indonesian Cement Association (ASI) chairman Urip Timuryono said cement consumption in Java reached 2.08 million tons in August or an increase of 14% from July.

"This (nationwide consumption in August) could be the biggest this year because we expect consumption to weaken in the following months," Timuryono told Thomson Financial.

He said consumption in September and October should fall due to the Muslim Ramadhan fasting month and Idul Fitri holidays. Demand will weaken further by the end of the year due to year-end festivities, he said.

Timuryono said the August performance was better than expected, leading the association to raise its full-year cement consumption forecast to 6.5% from the initial forecast of 5%. Accumulative domestic cement consumption in the first eight months rose 8.4% year-on-year to 27.19 million tons.

Gresik estimates the country's domestic cement consumption will rise 6% to 7% in 2008, as the sector gradually recovers from a slowdown last year.

## **PRIVATE SECTOR**

### **August New Vehicle Sales Up 48% On Year**

Sales of new vehicles in the country rose 7.9% on month and 48% on year in August to 41,448 units, industry data showed Tuesday (11/9/07), according to Dow Jones Newswires.

Data compiled by the Indonesian Car Maker Association Gaikindo showed August sales were the highest since the government more than doubled fuel prices in October 2005.

As usual, Japan's Toyota Motor Corp, in cooperation with PT Astra International, topped the sales chart, selling 13,491 units in August, up from 12,924 in July, the data said.

### **Ace Hardware Plans to Sell 30% Stake in IPO**

Hardware retailer PT Ace Hardware Indonesia said on Wednesday (12/9/07) it is planning to sell 30% of an enlarged stake via an initial public offering this year to fund expansion, Reuters reported.

The company said in a prospectus that 55% of the proceeds would be used to expand its business by opening new stores. It did not provide details on the offer price or the amount of money that the firm would like to raise.

Ace Hardware, which is currently 99.99% owned by major hardware distributor PT Kawan Lama Sejahtera, will offer 515 million new shares in an initial offering between November 14-16.

Ace Hardware has 22 stores in Indonesia, with a total retail area of 60,600 sq meters.

The company booked a net profit of Rp27 billion (\$2.86 million) in 2006, up from Rp17.5 billion the year before. Its sales climbed to Rp638.95 billion last year from Rp483.7 billion in 2005.

## Govt. Seeks Level Retail Playing Field

The government is planning legislation aimed at ensuring fair competition in the retail sector where large operators, including foreign companies, have been squeezing smaller, local companies, Trade Minister Mari Pangestu said Wednesday (12/9/07).

Pangestu said the regulation will shortly be signed by President Susilo Bambang Yudhoyono and is likely to be issued next month.

"The basic principle of the regulation is how do you allow modern retailers (like supermarkets and hypermarkets) to grow while at the same time help create a level playing field for traditional markets?" she said.

There has been a lot of discussion in recent years about whether the government should restrict the expansion of big retailers or even stop providing them with new licenses.

"The government's position is not to restrict them. The issue here is where they should be located. So the local government must have proper zone planning," she said.

The decree will also tackle possible partnerships between big and small retailers.

## BANKS

### Bukopin Loan Growth Exceeds Target

Bank Bukopin extended Rp18.71 trillion (\$1.9 billion) in loans during the first semester of the year, and will extend another Rp3.5 trillion until the end of the year, its president director Glen Glenardi said.

He said the lending expansion has already exceeded the growth target set by the bank's management for the year, *The Jakarta Post* reported on Monday (10/9/07).

The company had earlier this year targeted a 20% full-year growth in lending, from Rp14.68 trillion last year to about Rp18 trillion in 2007. "But we exceeded that figure by the end of the first half of 2007. And we still have around Rp3.5 trillion in new loans in the pipeline," he said.

"We have just filed a revision on the credit target with the board of commissioners," he said, while declining to disclose the revised figure.

Part of the credit target is funds earmarked by the bank to help the government finance infrastructure projects.

"This year, we allocated about Rp1 trillion for infrastructure projects and we have distributed Rp500 billion as of June 30. We will allocate Rp300 billion to Rp400 billion for the Becakayu (Bekasi-Cawang-Kampung Melayu) toll road for this semester," he said.

In the first half of the year, Bukopin booked Rp201 billion in audited net profit, a 31% increase from Rp153 billion in the same period last year.

Bukopin also recorded Rp623 billion in net interest income during the period, a Rp24 billion increase from Rp599 billion posted in the corresponding period the previous year.

As of June 30, the bank boasted a 15.3% capital adequacy ratio (CAR), way beyond the central bank's minimum requirement of 8%.

Bukopin's assets stand at Rp34.95 trillion, a 46.69% jump from Rp23.82 trillion in the first half of last year. "This asset growth is caused by third-party funds, recorded at Rp29.60 trillion, which rose 53% compared to last year," Glenardi said.

## Temasek Looks to Merge BII, Danamon

Singapore's state-owned investment company, Temasek Holdings Pte, may merge its two Indonesian banks into the country's fifth largest to meet ownership rules and boost their competitiveness, Bloomberg News reported on Friday (14/9/07).

PT Bank Internasional Indonesia (BII) will hire advisers to draft a recommendation for the merger, president director Henry Ho said Wednesday in an interview. The proposal to combine with PT Bank Danamon will be submitted to the central bank within this year, he said.

"Prima facie, it does seem to make sense but it needs to be validated," Ho said, adding that the two Jakarta-based banks complement each other.

A merger would create a bank with Rp135 trillion (\$14 billion) in assets and 730 branches. There had been earlier reports, denied by the bank, that it was looking to sell its stake in BII.

A merger would also help Temasek, which manages more than \$100 billion of assets, meet Indonesian rules restricting control of more than one financial services company. The central bank is introducing a 'one presence policy' in which entities may hold significant shares in more than one bank.

Temasek needs to sell its stake in one of the two banks, merge them or put them under a holding company, according to central bank regulations. Ho ruled out forming a holding company. Temasek said it's leaving the decision to the two banks.

A group led by Temasek owns 56.2% of BII and a majority stake in another group that owns 68.4% of Danamon, Bloomberg noted.

## BCA Looking to Buy 2 Banks - Director

Bank Central Asia (BCA) is seeking to acquire two small local banks this year as part of its plans to enter shariah and wealth banking, a company official said Monday (10/9/07).

BCA is preparing Rp200 billion for the acquisitions, finance director Jahja Setiatmadja was quoted as saying by Dow Jones Newswires.

Setiatmadja declined to name BCA's targets, but said the company is currently approaching four banks. He said the two planned services are expected to attract middle- to upper-tier customers.

The Islamic banking unit is expected to commence operations in 2008 and the wealth banking unit by 2009, he added.

POWER

## PLN Launches Major Power Project

State-owned power firm PLN commenced the construction Monday (10/9/07) of the Pelabuhan Ratu coal-fired power plant, the largest project under the government's 10,000 MW crash program.

The plant will have a total capacity of 1,050 MW and cost some \$700 million.

Located in Pelabuhan Ratu, Sukabumi, West Java, the plant, which will have three generator units, each with a capacity of 350 MW, will be built by a consortium made up of China's Shanghai Electric and local firm Maxima Infrastruktur.

The first unit will be completed in 30 months, with the second and third units due for completion three months and six months afterwards, respectively. Based on this schedule, the first unit is expected to begin commercial operations in February, 2010. The plant will be one of the biggest power plants in the country.

Indonesia is striving to increase its power-generation capacity so as to keep pace with the annual 9% growth in electricity demand. Currently, PLN's power plants have a total installed capacity of 25,218 MW, 16,400 MW of which is provided by power plants in Java and Bali.

Last year, the government launched its crash program to provide additional generating capacity of 6,900 MW in Java and 3,100 MW outside Java by 2010 so as to cope with the growing power deficit.

Chinese companies are playing a dominant role in the crash power program, with a number of them winning the tenders for power projects to be built under the program. Chinese investors had also been vying for power projects under Independent Power Producer (IPP) schemes with PLN.

A number of IPP projects, including a 2,400 MW coal-fired power plant in South Sumatra and a 270-MW coal-fired power plant in Bali, are currently on offer. Among the companies that had shown interest were the China Hua Dian Group for the South Sumatra project and Shanghai Chen for the Bali plant.

## Electricity Rates to Remain Steady

The government said Monday (10/9/07) it would not raise electricity rates between now and 2008.

State Minister for State Enterprises Sofyan A. Djalil said power rates would remain unchanged because the government had allocated a sufficient subsidy for state-owned electricity firm PLN.

This year's subsidy for PLN stood at Rp37 trillion, Sofyan said, adding that the subsidy would be increased next year. "There will be no electricity rate hikes in the next two years," he was quoted by Elshinta radio station as saying.

## OIL & GAS

### Pertamina to Boost Spending to \$2 bn

PT Pertamina is to increase spending by 33% next year to boost production and will step up efforts to sell its non-core businesses, President Ari Soemarno said.

Pertamina plans to spend \$2 billion in 2008, of which \$1.5 billion will be earmarked for oil and gas drilling and the rest to expand downstream businesses, including retail, Soemarno said in an interview with Bloomberg News in Singapore on Tuesday (11/9/07). The company expects to spend \$1.5 billion on its projects this year.

Pertamina aims to double total crude output to 300,000 barrels a day in four years, Soemarno said earlier.

Soemarno told Bloomberg that the company wanted to position itself as "a true oil and gas upstream operator and producer." Non-core assets such as hotels and an airline would be sold off.

The company has hired PricewaterhouseCoopers LLP and PT Bahana Securities to reorganize and sell as many as 60 units.

A study on the company restructuring has been completed and Pertamina is setting up an internal team to manage the sale of the units, which will be conducted "immediately," Soemarno said. Pertamina is in talks with investors and expects to complete selling the subsidiaries next year, he said.

## BP Secures Loan to Complete Tangguh

BP Plc has secured an \$884 million loan which should enable it to complete its Tangguh liquefied natural gas project in Indonesia, an official from regulator BP Migas said on Wednesday (12/9/07), Reuters reported.

BP had hoped to get the loan funds from Chinese banks, but balked at high interest rates and has been looking for another source.

Deputy Chief of BPMigas Edi Purwanto told reporters that the loans had come from banks from Europe, China and Japan. An agreement would be signed in October, he said.

In August 2006, BP signed deals with international banks for \$2.6 billion in loans, part of a total of \$3.5 billion in loans it needs for the \$5 billion project.

The multi-billion dollar project has secured long-term contracts to supply buyers in China, the US West Coast and South Korean to purchase the LPG.

## Medco Hires Credit Suisse to Sell Service Unit Stake

PT Medco Energi Internasional, Indonesia's biggest publicly traded oil company, said Credit Suisse will help sell its 52% stake in a drilling services unit. The unit's shares surged as much as 11%, Bloomberg reported.

PT Apexindo Pratama Duta may post net income of \$75 million next year and should be valued at 12 times future earnings, President Hilmi Panigoro said in a telephone interview Friday (14/9/07).

That values the company at \$900 million, or a 51% premium to Apexindo's current market value.

Medco plans to sell the stake because rig rentals have peaked, Panigoro said on July 19. The rates have more than tripled since 2004 as explorers step up efforts to find oil and benefit from record-crude prices.

Medco in August last year scrapped talks to sell the stake with companies including India's Aban Offshore Ltd. and China Oilfield Services Ltd.

*Bisnis Indonesia* reported that the stake in Apexindo has been offered to as many as 30 potential investors, including TPG Inc., a US private equity firm, and Ashmore Group Plc. "Credit Suisse is always in talks with TPG, as it's a client," Panigoro said. "It's too early to say with whom we may be speaking to."

Apexindo owns and operates nine onshore drilling rigs, and four swamp barges contracted by the Indonesian unit of Total SA. It also operates one jack-up rig in the Middle East for Norway's Statoil ASA and another one in Total's fields in East Kalimantan.

Medco will also sell stakes in three oil concessions to focus on areas that the company operates.

Medco plans to spend \$1.4 billion between 2008 and 2010 to develop domestic oil and gas areas and boost production. The company is developing the Senoro field in Sulawesi, which will feed a proposed liquefied natural gas to be built by Mitsubishi Corp., and Block A in Aceh to feed gas to a fertilizer plant.

## PetroChina to Invest \$372m in Jabung

China's oil and gas company PetroChina will invest \$372 million to develop the Jabung block in Sumatra's Jambi province this year. This is expected to help PetroChina maintain production, an official at the company told *Platts Commodity News* Thursday (13/9/07).

It targets an output of 51,100 barrels of oil-equivalent a day (boe/d) for 2007, including crude and oil products. In 2006, its output was 51,200 boe/d.

"The investment is for the drilling of exploration and development wells as well as building additional production facilities," the strategy and business manager of PetroChina International Companies in Indonesia, Yin Xiaohua, said.

The \$372 million includes \$128 million as capital and \$244 million as non-capital investment, he added.

The Jabung block is operated by PetroChina with a 27.857% stake. Other stakeholders are Malaysia's Petronas (27.857%), and state-owned Pertamina (14.285%) and private company PP Oil & Gas (30%).

## MINING

### Hanson Plans \$400 m Coal Conveyor in S. Sumatra

Energy firm PT Hanson Energy plans to invest about \$400 million building a conveyor to transport coal production from its mining sites in South Sumatra, a company director said on Monday (10/9/07).

Hanson Energy is an affiliate of Hanson International, which is involved in textiles.

The conveyor, which could be built by the middle of 2009, would have a capacity to transport 10 million tons of coal per year for delivery to supply power monopoly PLN in Lampung or Java.

"We are discussing the conveyor with a German company. We have got a letter of interest already and are open to other sources of funding," Harun Setiawan Boedi told Reuters.

The firm has two coal mining sites in South Sumatra with estimated reserves up to 400 million tons.

Indonesia's coal production this year is expected to rise around 10% to between 213-214 million tons, according to data from the Indonesian Coal Mining Association. Data from the mines and energy ministry estimates Indonesia has nearly 39 billion tons of coal deposits.

### India's C&O: Coal Deal Can Be Extended

Indian trading company Coal & Oil (C&O) said on Tuesday (11/9/07) its \$1.5 billion deal to import 50 million ton of coal over 10 years from Indonesia's Samtan-Kideco Co can be extended by a further five years.

"The deal can be extended by another five years, and in two to three years we hope to receive the first tranche of 2 million tons," C&O president and chief executive officer Ahmed Buhari told Reuters.

Imports would continue for a decade from the time of the first coal arrivals. The sub-bituminous coal imported under the deal will be used to meet demand from private independent power producers in India.

Other Indian coal users, such as Tata, have bought into Indonesian coal mines to ensure security of supply for their power stations back home.

## Lahai Coal Invests \$68m in C. Kalimantan Block

PT Lahai Coal (LC), a company related to giant mining firm BHP Billiton, is investing \$66 million or Rp594 billion in coal mining in the Haju block in Murung Raya (Mura) district, Central Kalimantan.

"We expect the coal mine in Haju block to start producing at the end of 2008 or early 2009 at the latest," Lahai Coal president director Indra Diananjaya told Antara Wednesday (12/9/07).

PT Lahai Coal has already obtained a temporary permit from the forestry minister to mine coal in the Haju block which covers an area of 829 hectares, a small portion of BHP's concession area of 46,820 hectares holding proven reserves totaling about 4 million tons.

Some 70% of the coal deposits in the Haju block which comprises the Siang, Danum and Lahung areas, consists of coking coal and the rest of thermal coal.

PT Lahai Coal, which has seven subsidiaries, has also been setting up all the infrastructures and utilities needed to support its coal mining operations that will have a production capacity of 1-2 tons per year.

Another BHP Biliton-related company, PT Maruwei Coal, will also invest in coal mining in the northern part of Central Kalimantan.

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