

THE COORDINATING MINISTRY FOR ECONOMIC AFFAIRS
REPUBLIC OF INDONESIA

Main Building, Ministry of Finance, Jl. Lapangan Banteng Timur No.2-4 Jakarta Pusat
Tel: (021) 380-8384 Fax: (021) 344-0394 Website: <http://www.ekon.go.id>

Trade and Investment News¹, 20 August 2007

Highlights

Politics

- President claims victory in fight against terrorism
- Indonesia to assist Thailand over southern separatism

Regions

- A tsunami warning system begins to take shape and is working

Economy

- President unveils 2008 budget, with boost in infrastructure spending
- Fuel subsidies come down in 2008 budget as kerosene phased out

Business briefs

Macroeconomy

- Second quarter growth recorded at 6.28%
- Bank Indonesia ready to intervene to protect rupiah

Investment

- Japan acknowledges improvements in investment climate
- Japan's prime minister to visit with 150-strong business delegation

State concerns

- Manufacturing sector grows 5.4% in first half
- EU agrees to fish quality monitoring program

SOEs

- New targets set for SOE returns
- Cement sales continue to rise

Private sector

- Car sales slip slightly as parents get children back to school
- Tax cuts to be offered to companies that list

Banks

- Bank BNI float suffers from global jitters

Power

- Chevron opens third unit of geothermal power plant
- Coal miner Gunung Bayan to build plant in East Kalimantan

Oil & gas

- 2008 budget looks to \$60 fuel price
- Pertamina to sign with Mitsubishi on Sulawesi LNG plant

Mining

- Newmont Mining offers second stake of 7% to local governments

¹ *This Trade and Investment News is a publication of the Coordinating Ministry for Economic Affairs of the Republic of Indonesia. Readers are welcomed to forward it in its original form but no reproduction is allowed without permission*

President Claims Terror Victory

President Susilo Bambang Yudhoyono on Thursday (16/8/07) claimed victory on Thursday (16/8/07) against Islamic terrorists after two years in which the country has not suffered any attack, the Associated Press reported.

Dr. Yudhoyono said in his state of the union address that "the acts of terrorism that have caused unrest in our society in the past years have been handled. We have succeeded in preventing and tackling the acts of terrorism in the country."

But sounding a note of caution, he told parliamentarians: "We should not only tackle the surface, but we need to touch the roots of the problem such as backwardness, poverty and injustice, extremism, radicalism and the culture of violence.

"We have to be serious about preventing and fighting terrorism, because we want to save our people and our nation," he continued. "This is our responsibility, also, to the global community."

Nearly 400 militants have been convicted and imprisoned as part of government efforts to weaken the regional Jemaah Islamiyah network, which wants to create an Islamic state across much of Southeast Asia.

Yudhoyono said security also has improved on Sulawesi and in Maluku, where Muslim-Christian violence from 1999 to 2002 together left some 10,000 dead.

Turning to the economy, he predicted that growth will accelerate next year to its fastest since 1996, boosting efforts to tackle widespread poverty and unemployment. A 2007 economic growth target of 6.3% was achievable and he forecast 6.8% growth next year.

Pledging better access to jobs, education and health care, Yudhoyono said next year's budget for poverty alleviation will rise to Rp7 trillion (\$743 million) from Rp3.9 trillion this year.

The president also stated that Indonesia should be able to ride out recent global market turmoil.

"I am sure with the strength of our economic and financial fundamentals, all the international reserves that we have, and the reinforcement steps we have taken, God willing, we can go through this with minimum impact."

The President also said his government has no tolerance for separatist sentiment, Agence France-Presse reported.

"The state will remain firm," he declared. "There is no space for anyone to engage in separatism that threatens the sovereignty and integrity of the state."

But he said recent minor incidents in Aceh were something to be expected. "It is only normal if some tension and misunderstanding continue between sides who have been in conflict for over 30 years, because trust-building is still in progress," he said.

Independents in 2008 Elections

Independent candidates are likely to contest regional elections in 14 provinces, regencies and municipalities next year, giving a significant boost to the democracy movement, *The Jakarta Post* reported on Monday (13/8/07).

Among the provinces that will stage fully-fledged democratic regional elections next year are North Sumatra, Yogyakarta and South Sulawesi.

Constitutional Court chairman Jimly Asshiddiqie confirmed on August 12 that President Susilo

Bambang Yudhoyono has made a personal commitment to issue a government regulation clearing the way for the participation of independent candidates.

"The president told me yesterday that the (recent) ruling of the Constitutional Court on independent candidates has been made in accordance with the court's authority," he said. "The government and the House of Representatives will take the necessary action."

The court ruled on July 23 that independents should be allowed to contest local elections, annulling parts of the 2004 Regional Autonomy Law that stipulated only candidates endorsed by political parties can run for local elections.

The ruling came too late for Jakarta, which held its first direct gubernatorial election on August 8, but Asshiddiqie said he hoped it could be implemented as soon as January 2008.

"Hopefully, everything can be done in accordance with the people's expectations and the Constitutional Court's ruling," he told reporters.

Militants Face Death Penalty

Four militants could face the death penalty after being charged on Monday (13/8/07) with terror-related crimes committed in religiously-divided Central Sulawesi, Agence France-Presse reported.

Prosecutors accused Muhammad Basri, 29, of violating anti-terror laws by being involved in a series of crimes against Christians in Central Sulawesi between 2003 and his arrest in February this year.

Basri is accused of involvement in the killing of three high school girls in Poso in 2005, an act which sparked an outcry, and the shooting death of a Christian minister in Palu in July that same year.

He also stands accused of taking part in several other acts of violence in Poso district since 2003, including an armed clash that led to his arrest on February 1. He was wounded by a gunshot to the stomach when he was arrested.

In separate trials at the same court, three other militants -- Ardin Djanatu alias Rojak, 37, Ridwan alias Duan, 26, and Tugiran, 32 -- were charged with acts of terrorism linked to sectarian violence in Poso district.

Djanatu is facing charges related to involvement in a bomb attack on a busy market in the town of Tentena in Poso district in May 2005 that left 22 dead, and in the shooting of two women in Poso in November the same year.

Ridwan is accused of involvement in a bomb attack in Poso in September 2006 that left two dead and the same clashes with police, while Tugiran has been indicted for taking part in January's clash.

A court in March jailed three militants for up to 20 years for their key roles in the beheading of the three schoolgirls. Two other men were jailed for 14 years for assisting them.

Indonesia to Help Thais

Indonesia has agreed to help Thailand find a solution to the violence plaguing its Muslim-dominated southern provinces, Foreign Ministry director for East Asia and Pacific Affairs Yuri Thamrin told *The Jakarta Post* on Monday (13/8/07).

He said Thai leaders had asked the Indonesian government for suggestions on how to deal with Muslim rebels fighting for an independent homeland along the Malaysian border.

"As a good neighbor, we have accepted Thailand's request," he said. "We will support a peaceful solution within the framework of Thailand's territorial integration as we have had some similar experiences, such as finding a solution to the conflict in Aceh."

Thamrin confirmed a quiet visit by military coup leader Gen. Sonthi Boonyaratglin to Indonesia last week to meet President Susilo Bambang Yudhoyono, Vice President Jusuf Kalla and Armed Forces Commander Air Chief Marshal Djoko Suyanto was partly to request Indonesia's support.

He said Thai Prime Minister Surayud Chulanont also said he hoped Indonesia could be involved in finding a peaceful solution to the problem when he visited the country several months ago.

Thamrin said Indonesian officials and religious leaders are in communication with residents and leaders in southern Thailand. "Our religious leaders have talked with southern Thai leaders to identify the source of the problem," he added.

More than 2,200 people have been killed since the insurgency broke out in the three southernmost provinces in 2004.

REGIONS

Jakarta Finalizes Election Result

Fauzi Bowo and his running mate Prijanto have been declared the winners of the August 8 Jakarta gubernatorial election after the votes were certified by the General Elections Commission on Thursday (16/8/07), *The Jakarta Post* reported.

The manual count shows Bowo and Prijanto secured 57.87% of 3.6 million votes. The electronic tally gave the incumbent deputy governor and the former military officer 57.79% of the vote.

The election turnout was recorded at a respectable turnout of 65.41% of 5.7 million registered voters.

Commission head Juri Ardiantoro said the counting process had gone well, with only a single minor glitch which had been sorted out.

Igo Ilham, the head of Daradjatun's campaign team, said there had been no talk of challenging the results. "We are dissatisfied by some parts of the process but at this late stage it is better to support the new elected governor and see him installed as soon as possible," he said.

The commission has given a three-day period for members of the public to challenge the result before the data is sent to the City Council and the Home Ministry. Governor Sutiyoso ends his tenure on October 7.

Tsunami System 'Stable'

The Meteorological and Geophysical Agency of Indonesia (BMG) says the installation of a tsunami early warning system for the Indian Ocean is moving ahead and is already stable although difficulties in acquiring appropriate land continue.

The agency announced that it has so far installed about 70 of the planned 180 sensors required to detect the location and size of earthquakes in the region of Indonesia, according to a report by SciDev.net.

The new system, currently under construction by BMG with help from a German research consortium, detected and sized a magnitude 7.6 earthquake on August 8 in four minutes 38 seconds. It first located the quake in two minutes and 11 seconds.

An older system installed in 2005 after the Indian Ocean tsunami of December 2004, took about 10 minutes to detect an earthquake and located it with less precision.

Sri Woro B Harijono, head of BMG, said the performance of the new system is a giant leap for Indonesia, especially given that it only had a single sensor in 2004 when the tsunami hit.

BMG plans to finish installation of the whole 180 sensor installations by 2008 and expects the system to be operational in the same year.

ECONOMY

2008 Budget to Spur Growth

President Susilo Bambang Yudhoyono announced a budget for next year that will push funds into infrastructure development.

The government is targeting growth of 6.8% next year, up from its projected 6.3% this year, on a deficit of 1.7% of gross domestic product, Dr. Yudhoyono announced Thursday (16/8/07) in his annual state-of-the-nation speech to mark Independence Day.

The deficit will be used to fund plans to boost government capital spending to Rp101.5 trillion (\$10.77 billion) next year, 48.6% higher than this year, to pay for much-needed infrastructure projects, Dow Jones Newswires reported.

Analysts called the budget ambitious and praised the decision to spend more money on infrastructure. They said a deficit of 1.5% to 1.8% of GDP is acceptable.

Separately, Energy and Mineral Resources Minister Purnomo Yusgiantoro promised that there would be no fuel price rises next year, stating that the lower fuel subsidy figure in next year's budget of Rp46.7 trillion (\$4.9 billion), down from Rp56.4 trillion this year, would be achieved by savings on kerosene subsidies as the transfer to gas for cooking fuel proceeded.

The Public Works Ministry will get Rp35.6 trillion for the next fiscal year - a 41% jump over its current allocation, with Rp18.6 trillion to go towards new road networks and improvements to existing ones, *The Straits Times* reported.

Education will get funding of Rp48.3 trillion, more than twice its 2005 budget, while the Health Ministry's budget will almost triple since 2005 to Rp18.8 trillion.

The Jakarta Stock Exchange continued to suffer from global concern over US subprime mortgages, with the composite index closing 5.9% down Thursday before the Independence Day.

The Jakarta Stock Exchange composite index closed at 1,908. For the week, the index plunged 13.5%.

Bank Indonesia Governor Burhanuddin Abdullah told reporters Thursday the central bank has intervened in the local foreign exchange market to support the rupiah "and will continue to be in the market." Abdullah didn't reveal the size or the timing of the intervention, the Associated Press reported.

In other news, the Economic Partnership Agreement with Japan was to be signed on Monday during the visit of Japanese Prime Minister Shinzo Abe.

Among deals to be signed during the visit, oil and gas firm Pertamina will sign an agreement to build a \$1.2 billion liquefied natural gas (LNG) plant on Sulawesi with Japan's Mitsubishi Corp.

The plant will produce 2 million tons of LNG a year, with natural gas supplies coming from the Matindok and Senoro fields, operated by PT Medco Energi Internasional. The fields have combined reserves of around 2 trillion cubic feet. Mitsubishi has 51%, Pertamina 29% and Medco 20% in the LNG plant.

BUSINESS BRIEFS

MACROECONOMY

Q2 GDP +6.28% on Year on Exports

The economy expanded 6.28% on year in the second quarter, accelerating from 5.97% the previous quarter, the Central Bureau of Statistics (BPS) said Wednesday (15/8/07).

On quarter, the economy grew 2.41%, quickening from 1.97% in the January-March period.

The bureau said the main driver of growth was exports, which grew 3.82% on quarter and 9.79% on year. "Non-oil and non-gas exports rose, thanks to high global commodity prices and also improving economic performance of (export destination) countries," BPS deputy chairman Slamet Sutomo was quoted as saying by Dow Jones Newswires.

The bureau said private consumption, which has been supporting economic growth since 2000, grew 1.46% on quarter and 4.71% on year, as inflation has been relatively tame.

Government consumption grew 3.83% on year in the second quarter and 24.18% from the previous quarter.

Investment expanded 6.86% on year and 4.3% on quarter due to an improving investment climate in the country.

The economy is expected to power forward for the rest of the year by both private-sector economists and the government. The central bank is projecting 6.2% on-year growth for the July-September period.

"Third-quarter growth will improve, especially because household consumption is expected to rise during the fasting month," Sutomo added. The Muslim fasting month will begin in the middle of September.

Coordinating Minister for Economic Affairs Boediono said with strong growth in the second quarter, the government's 6.3% economic growth forecast for 2007 is within reach.

"I think it is possible to achieve (that target). Some people have been pessimistic about the second quarter, but (the economy) turned out to be quite strong," he was quoted as saying by Thomson Financial.

Consumer Confidence Up Slightly in July - BI

Consumer confidence in the country improved slightly in July from a month earlier, Bank Indonesia (BI) said Monday (13/8/07).

The central bank said its consumer confidence index rose 0.5 point to 96.3 in July from 95.8 in June as respondents became less pessimistic about the availability of jobs and economic conditions over the next six months.

However, "consumers remain optimistic over their income (prospects) over the next six months", the survey said, according to Dow Jones Newswires.

Consumers in seven cities in Indonesia also expect prices to rise within the next three to six months, the survey showed.

An index level below 100 indicates pessimists outnumber optimists. The index has remained below 100 since December 2006.

Govt. Buys Back Rp1.6t Bonds

The government bought back Rp1.656 trillion (\$177 million) worth of government bonds via an auction on Tuesday (14/8/07) as part of an effort to capitalize on recent falls in bond prices, the Finance Department said.

The department also said it aims to raise Rp3 trillion from sales on August 21 of re-opened government bonds FR0046 maturing in 2023 and new bonds FR0047 maturing 2018, parts of an effort to plug the state budget deficit.

"This is a signal that the government is committed to stabilizing the market," Rahmat Waluyanto, the Finance Department's treasury director general, was quoted as saying by Reuters.

The department on Tuesday cancelled a plan to buy back floating-rate rupiah government bonds maturing on September 25 this year as there was no selling offer from investors.

The government aims to raise Rp3 trillion (\$320.6 million) from government bond sales this month.

Overseas Bond Issue Possible Next Year

The government is open to the possibility of issuing bonds overseas next year to help finance the state budget deficit, Finance Minister Sri Mulyani Indrawati said Thursday without elaborating.

A government document seen by Dow Jones Newswires said the overseas bond issue could be around Rp24.8 trillion (\$2.6 billion).

The document said that the government may issue a combination of conventional dollar bonds and Islamic bonds to achieve the targeted proceeds.

The government is planning to raise Rp91.6 trillion in net bond proceeds next year, up from around Rp60 trillion expected this year, as the budget deficit for 2008 is expected to rise 21% on year.

INVESTMENT

Investment Climate Improved - Japan

The Japanese government acknowledges Indonesia's progress in improving its investment climate that Japanese Prime Minister Shinzo Abe will bring 150 top Japanese business executives when he visits Jakarta on August 19-21, a Japanese official said Thursday (16/8/07).

The Japanese prime minister's visit will mark more progressive bilateral relations between Japan and Indonesia, Director General for Media Relations of the Japanese Foreign Affairs Ministry Mitsuo Sakaba told Antara.

Abe and President Susilo Bambang Yudhoyono are scheduled to sign an Economic Partnership Agreement (EPA) in which Indonesian products will be allowed to swamp Japanese markets. The EPA between Indonesia and Japan would also enable Indonesian semi-professional workers to enter Japan.

Sakaba said a good investment climate should be developed jointly by both countries. "There is tight competition among Asian countries in attracting Japanese investment," he added.

Indonesia, as a large country, has exceptional potentials that could attract investors, Sakaba said.

Auto Sector to Dominate Japanese Interest

Japanese investors plan to invest \$557.4 million in the manufacturing industry in 2007-2008, dominated by commitments to the automotive sector, Antara reported.

PT Astra Daihatsu Motor (ADM), which produces Daihatsu cars in the country, alone plans to invest \$287.4 million in 2007-2008, a member of the negotiating team for the Indonesia-Japan Economic Partnership Agreement (EA) said.

Amelia Tjandra, a marketing official of ADM confirmed the company will use the investment to expand the production capacity of its factory to 150,000 units of car from 120,000 units at present.

The second largest investment by Japanese companies in 2007-2008 will be in the heavy equipment sector involving a total investment of \$185 million, mostly for capacity expansion by a number of subsidiaries in the country.

Govt. Seeks Funds for R1.4t Java Cargo Railway

The government will invite domestic and foreign companies to invest in planned cargo railway projects in Java, valued at Rp1.4 trillion (\$150 million), *Bisnis Indonesia* reported Tuesday (14/8/07).

The government plans to build a cargo railway network to connect industrial areas with seaports in Java, the Transportation Department's Director General for Rail Transportation Soemino Eko Saputro said.

The cargo railway system is expected to boost trade on the island, Saputro said without providing a timeframe.

RNI to Invest \$140M in Sugar Mill

State-owned trading and manufacturing firm PT Rajawali Nusantara Indonesia plans to invest \$140 million to build a sugar mill in West Java, a company official said Thursday (16/8/07), Dow Jones Newswires reported.

Construction of the mill is planned for next year, once a feasibility study is completed by the end of this year, he said. The sugar mill will be built in Garut, about 200 km from Jakarta.

Bisnis Indonesia quoted Rajawali president Rama Prihandana as saying that the mill is expected to have the capacity to process 5,000 tons of sugarcane a day. He said the company has been awarded the rights to plant sugarcane over an area of 12,000 hectares.

Bank Mandiri, Bank Central Asia, Bank Negara Indonesia and Bank Mega have expressed interest to finance the project, according to the daily.

IOI Corp, Harita Group in Oil Palm Joint Ventures

Malaysia's most valuable plantation firm IOI Corp Bhd said Wednesday (15/8/07) it has agreed to team up with Indonesia's Harita Group to cultivate oil palms in Kalimantan.

The company will spend \$130 million to buy a 33% stake in PT Bumitama Guanajaya Agro and a 67% stake in several unnamed companies, which will have total land for planting of 128,000 hectares, IOI said in a filing to the stock exchange, according to Dow Jones Newswires.

Bumitama has a total planted area of 35,340 hectares, unplanted land of 64,000 hectares and three palm oil mills.

IOI said it will provide plantation management and technical support under a technical support agreement while Harita will be responsible for human resource and regulatory matters.

The proposed joint ventures are in line with the company's strategy of growing its core palm oil business, thus providing the opportunity to capitalize on the favorable outlook for the oil palm industry, IOI said.

STATE CONCERNS

Manufacturing Grows 5.4% in 1H

The manufacturing sector grew 5.4% in the first half of 2007 compared with the same period last year, but fell short of the target set by the government, Antara reported.

The main drivers for growth were the automotive, machine and equipment sector, which expanded by 10.37% in the second quarter and by 6.15% in the first quarter of this year, the Central Bureau of Statistic (BPS) said.

Manufacturing had contributed 1.5% to the country's economic growth of around 6.28% in the second quarter of this year, Slamet Sutomo, a deputy chief of BPS said.

EU Agrees to Fish Products Monitoring Proposal

The European Union (EU) has agreed to an Indonesian proposal to plan residue monitoring for live animal and animal products.

The agreement is tantamount to EU canceling its plan to ban Indonesian exporters from supplying these commodities to the European market, an official of the Indonesian Maritime and Fisheries Department said, according to an Antara report on Wednesday (15/8/07).

The EU had considered scrapping Indonesian exporters from its list of suppliers for fishery products due to alleged contents of antibiotics and other health hazardous materials within their stock.

Under the agreement, the EU will continue monitoring the quality of Indonesian fish products, especially breeding products, Nazori Jazol, standardization and accreditation director said.

He said monitoring includes shrimp ponds to guarantee that shrimps are free from dangerous residue when they are exported to Europe.

SOEs

SOE Pre-Tax Profit Seen to Reach \$11b

The government has set the target for state companies to chalk up a pre-tax profit of Rp100 trillion (\$11.1 billion) next year, higher than this year's target of Rp88 trillion, an official said.

A total capital expenditure of Rp151 trillion is expected to be enough for state companies to improve their performance and reach the target, secretary to the state minister for state enterprises, M Said Didu said, according to Antara.

Didu expressed optimism that the target would be achieved as all state banks and mining companies have surpassed the annual growth target of 22% so far this year.

He cited as an example the nation's flag carrier Garuda Indonesia, which reported a net profit of Rp148 billion in the first half of the year after being in the red for several years .

Semen Gresik 7 Month Sales Up 6.2%

State-owned cement maker PT Semen Gresik said Tuesday (14/8/07) its cement sales in the seven months to July rose 6.2% from a year earlier to 9.48 million tons.

It said domestic sales over the period rose 4.2% to 8.48 million tons while exports surged 26.5% to 1.01 million tons, Thomson Financial reported.

In July alone, it sold 1.56 million tons of cement against 1.42 million in June.

The country's cement consumption in July rose 10.5% from a year ago, as the construction sector received a boost from lower interest rates and new infrastructure projects, the country's cement association said on Tuesday.

Urip Timuryono, chairman of Indonesia's cement association, said the country consumed 3.08 million tons of the building material in July, up from 2.79 million in the same month last year.

July's cement consumption took the year to date total to 18.68 million tons, up 8% from a year ago.

"The increase was partly due to falling interest rates. Infrastructure development also helped sales," Timuryono told Reuters.

Timuryono said he expects cement sales to hit 33 million tons for the whole of 2007, up from last year's 32.1 million tons, helped by the launch of infrastructure projects.

Meanwhile, Semen Gresik is planning to issue \$300 million worth of bonds overseas during the fourth quarter of the year to help finance this year's investment, a banker familiar with the plan said Monday (13/8/07).

The company has named JP Morgan as underwriter of the planned bonds, which are likely to have a tenor of between five and seven years, the banker told Dow Jones Newswires.

He did not provide further details of the plan, saying the company and JP Morgan expect the current turmoil in the global financial markets to completely subside by the time they enter the market.

Plantation Holding Company in 2009

The government plans to establish a holding company for state-owned plantation companies in 2009, State Minister for State Enterprises Sofyan Djalil said.

The plan is expected to increase the equity of state plantation companies by 107% to Rp62.27 trillion (\$6.9 billion) that year, he was quoted as saying by Antara.

The holding company will group PTPN I-XIV, which operate oil palm, rubber, and tea plantations and PT Rajawali Nusantara Indonesia (RNI), which operates sugar plantations and factories.

The holding company will handle investment, marketing and strategic policies, Djalil said.

Earlier, he said a holding company for plantation companies would be established in a month. It turns out it is not as easy as expected, he acknowledged, saying it would need lengthy talks with other related ministers, especially the chief economics minister and the finance minister.

PRIVATE SECTOR

Car Sales Slip in July

The country's biggest car dealer PT Toyota Astra Motor said Thursday (16/8/07) it sold 12,927 cars in July on the domestic market, down 2.9% from June but up 68.9% from a year ago.

Industry-wide domestic car sales in July dropped 2.6% to 38,396 from June, but were up 75% from a year ago, it said.

Since July is when school opens in Indonesia, "July sales are normally weaker (compared to) June because consumers usually spend more on education-related costs," Bamang Trisulo, chairman of the Indonesian Automotive Industries Association (Gaikindo), told Thomson Financial.

Industry-wide car sales in the seven months to July totaled 235,717 units, up 37% from 171,525 a year ago. Toyota Astra's cumulative sales in the seven months also rose 18% to 82,019 cars from 69,457 a year before.

Trisulo said the industry is still on track to achieve full year sales of 400,000-410,000 vehicles. "But we may have to rethink that forecast if the rupiah continues its fall below 9,500 per US dollar," he said.

Toyota-Astra is a 51%-49% joint venture between PT Astra International and Toyota Motor Corp.

Motorcycle sales also fell in July, down 2% year-on-year to 365,571 units, and down 1.7% on the previous month, data from the Indonesian Motorcycle Industry Association (AIS) sited by Thomson Financial showed.

The association said cumulative motorcycle sales in the seven months to July rose 13.2% to 2.49 million units.

Yamaha again outranked Honda in July as market leader with sales of 162,116 units compared to 155,320 in June. Honda sales fell to 143,305 units in July from 159,995 in June.

Listed Companies to Get Tax Cut

The government will later this month issue a decree providing income tax reductions for companies that sell stakes to the public, a government official said Monday (13/8/07), according to Dow Jones Newswires.

Tax director general Darmin Nasution said the tax reduction will be between two and three percentage points for companies that sell up to 30% of their stakes, and five percentage points to those selling at least 50% of their shares to public investors.

The tax incentive is one of the measures the government has been mulling to encourage companies to list their shares on local bourses.

BANKS

BNI Shares Drop After Stake Sale

Shares of the country's largest lender, Bank Negara Indonesia opened 3.53% lower on Monday (13/8/07) after being suspended the previous week for a stake sale worth nearly \$870 million, Reuters reported.

The bank and government jointly raised Rp8.1 trillion (\$866.7 million) from the sale in the state bank.

The offering was overshadowed by a sell-off in emerging markets as investors fretted over the woes in the US subprime mortgage. The sale cut the state's stake in the bank to 73% from 99%.

The government plans to use about half the funds to help plug the state budget deficit and the rest to strengthen the bank's capital base.

CBA Interested in Increasing Portfolio

The Commonwealth Bank of Australia (CBA) said Wednesday (15/8/07) it is interested in expanding its portfolio in Indonesia, reported Dow Jones Newswires.

Announcing CBA's annual result, chief executive officer Ralph Norris told journalists the lender is interested in both acquisitions and organic growth in Indonesia.

POWER

Chevron Expands Geothermal Operations

The world's largest geothermal energy producer, Chevron Corp., officially opened the third unit of its Darajat power plant in Garut, West Java, on Tuesday (14/8/07), providing electricity to an additional 700,000 homes, *The Jakarta Post* reported.

The Darajat III geothermal power plant boosted capacity at Chevron's Darajat geothermal complex by 110 MW to 259 MW, the company said in a statement.

If the power output in the Darajat power plant is combined with its Salak geothermal plant, also located in West Java, Chevron can provide electricity to about 3.9 million homes.

Indonesia geothermal resource base is believed to be able to produce over 27,700 MW of electricity, or 40% of the world's reserve.

To expand its renewable energy operations in Indonesia this year, Chevron has allocated more than \$100 million for the development of renewable and alternative energy from 2007 through 2009.

Bayan Plans 50 MW Power Plant in E. Kalimantan

Coal miner Gunung Bayan plans to build a 50 MW coal-fired power plant at one of its mines in East Kalimantan this year, *The Jakarta Post* reported on Wednesday (15/7/07).

Gunung Bayan's president commissioner Michael Soemarjanto said the project, which would cost an estimated \$60 million, would supply electricity to a nearby industrial estate in the province's capital of Balikpapan.

Power production would be gradually increased to 150 MW in an effort to help cope with the power shortage in the province.

Gunung Bayan produced around 6.5 million tons of coal last year and its output is expected to rise to 9 million tons this year, industry data showed.

OIL & GAS

Indonesia Budgets for 2008 Oil Price of \$60/bbl

Indonesia's average oil price in the 2008 budget has been set at \$60 per barrel, unchanged from 2007, President Susilo Bambang Yudhoyono said in a prepared speech to parliament on Thursday (16/7/07).

Oil lifting in Indonesia, Asia Pacific's only OPEC member, was expected to be 1.034 million barrels per day (bpd) next year, up from 950,000 bpd in this year's budget, the president said.

Separately, Energy and Mineral Resources Minister Purnomo Yusgiantoro promised that there would be no fuel price rises next year. The budget allows for fuel subsidy spending of Rp46.7 trillion (\$4.9 billion), down from Rp56.4 trillion this year. Savings would be achieved by lower kerosene subsidies as the transfer to gas for cooking fuel proceeded.

Pertamina in Deals with Mitsubishi, Kogas

State oil and gas firm Pertamina will sign an agreement to build a \$1.2 billion liquefied natural gas (LNG) plant in Sulawesi with Japan's Mitsubishi Corp. and may cooperate with Korea Gas Corp to build a LNG import terminal in Java, Pertamina officials said on Friday (17/8/07).

The signing of the first agreement will take place during a visit by Japanese Prime Minister Shinzo Abe to Indonesia this week.

The plant will produce 2 million tons of LNG a year. Natural gas supplies will come from Pertamina's Matindok and Senoro fields, operated by Indonesia's PT Medco Energi Internasional. The fields have combined reserves of around 2 trillion cubic feet.

Pertamina's finance director Fereederick Siahaan said Pertamina, Mitsubishi and Medco would finance the project based on the size of their stakes. Mitsubishi has 51%, Pertamina 29% and Medco 20% in the LNG plant. "Pertamina is seeking loans to finance this LNG project, which will cost a total of around \$1.2 billion," Reuters quoted Siahaan as saying. He added that Pertamina was in the process of selecting financial advisers.

Also on Friday, Pertamina's president director Ari Soemarno told reporters at a ceremony to mark

Indonesia's Independence Day that his company was seeking a partner to build an LNG terminal. "One possibility is to cooperate with KOGAS. KOGAS has experience in this project," he said.

He said the cost was not clear yet and did not give a time frame. "We are considering building an LNG terminal with a capacity of between 3 to 4 million tons per year," he added.

ExxonMobil Set For Cepu Drive

ExxonMobil is to start work soon on the three main turnkey packages linked to its delayed \$2 billion-plus Banyu Urip oil development on the Cepu block in Java, *Upstream* reported on Friday (17/8/07).

Sources said the US major plans to start by pre-qualifying companies to compete for the three big contracts, which comprise an onshore collection and processing facilities; about 100 km of 20-inch onshore and offshore pipelines and a 2 million-barrel floating storage and offloading vessel.

For the onshore work, contenders will include KBR, Fluor, Petrosea (Clough), Technip and WorleyParsons. Indonesian EPC players are also likely to contest through joint ventures with the main Western contractors.

Earlier this year, ExxonMobil awarded WorleyParsons a contract to carry out "updated" front-end engineering and design on the Cepu onshore facilities.

JP Kenny was awarded a parallel updated FEED contract for the Cepu pipelines.

Estimated recovery at the Banyu Urip field is more than 350 million barrels of oil, while further exploration in the Cepu contract area will include seismic acquisition and exploration drilling.

ExxonMobil said it expects Banyu Urip to eventually produce a gross 20 million cubic feet per day of gas and added that studies "are continuing into the development of the Jambaran and Cendana gas fields".

The Cepu block also contains gas reserves, but it has a high carbon dioxide content, according to recent reports. ExxonMobil is in talks with potential gas buyers such as state-owned Perusahaan Gas Negara and fertilizer company Petrokimia Gresik, and says it will produce the gas as long as it has buyers.

MINING

Newmont Offers Local Govt. Another 7% Stake

As part of the mandatory divestment program imposed on foreign mining firms, PT Newmont Nusa Tenggara (NNT), operator of the giant Batu Hijau copper and gold mine in West Nusa Tenggara (NTB), is offering local governments another 7% of the operation, in addition to the 3% currently under negotiation, a company executive told *The Jakarta Post*.

NNT's spokesman Martiono Hadianto said Wednesday (15/8/07) that the offer was part of a "goodwill" package designed to help local communities, which would also include no-risk bridging loans to pay for the share purchases.

He said that the local governments, comprising the provincial administration and the West Sumbawa and Sumbawa regency administrations, would also be allowed to pay the loans with the net dividends they receive from the company.

"Thus, the loans are virtually risk-free," said Martiono. "There is no payment due if there is no dividend flow. And if, for any reason, the mine stops operating before the loan is fully repaid, the balance of the loan will be forgiven," he explained.

He said that the local governments were assured of an annual cash flow of \$333,333 for each percentage of their ownership in the operation, in addition to the royalties. "This guaranteed cash flow should help them improve services, such as education, healthcare and infrastructure," said Martiono.

Martiono is president director of PT Newmont Pacific Nusantara, the service company for the United States-based Newmont's operations in Indonesia.

Based on negotiations with the Energy and Mineral Resources Ministry, the 7% and 3% stakes have been valued at \$282 million and \$109 million respectively.

The offer was made as part of the company's mandatory divestment program, under which the foreign shareholders of NNT must sell a minimum of 51% of the shares to local investors by 2010.

The company still needs to sell 31% of the operation by 2010. A 20% stake is already owned by local firm PT Pukuafu Indah.

NNT, which began its Batu Hijau mine operation in 2000, produced 450 million pounds of copper and 447 million ounces of gold in 2006. This year, the company expects a 1.3% increase in its copper production to 455.9 million pounds, and an 8.2% increase in gold production to 484 million ounces.

NNT paid \$16 million in royalties to the government last year, while this year it is expected to pay about \$17.4 million

PT Timah Halts Tin Sales As Price Drops

The world's largest integrated tin miner, PT Timah, has halted its sales of tin until the London Metal Exchange-traded price goes back above \$15,000 per ton, a spokesman told Dow Jones on Friday (17/8/07).

"The sales (of spot tin) to traders will be stopped temporarily," said corporate secretary Prasetyo Sakono by phone. "It's not worth doing sales on the spot market in this kind of situation."

The price of LME tin futures has dropped by over 20% from its record high of \$17,050 on August 7.

The company will maintain its long-term contracts to end users, he added. No decision has been taken on new contracts, since they are usually only negotiated once a year between October and December, Prasetyo said. The firm said it was still committed to produce between 45,000 and 48,000 tons of tin this year.

About 70% of the company's tin is sold on a long-term contract basis, with the rest sold on the spot market, he said.

Indonesia Plans To Tighten Mineral Exports

Indonesia plans to tighten exports of some mineral products -- including bauxite, iron sands and granite -- to prevent smuggling outside the country, a senior trade official said on Tuesday (14/8/07).

Exports of the minerals should be verified by independent surveyors to make sure exporters are not shipping commodities other than stated in the shipping document, Diah Maulida, Director General of Foreign Trade at the Trade Ministry told Reuters.

"It's difficult to identify different mineral products just by looking at its physical features. The rule will aim at monitoring exports," said Maulida, without elaborating. She did not say when the new policy would be applied.

In April, Indonesian authorities detained two ships carrying a total of 110,000 tons of bauxite to China.

===***===