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By Natalie O'Brien

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POLITICS

Myanmar Junta Reassures President

Myanmar's military junta leader Senior Gen. Than Shwe promised President Susilo Bambang Yudhoyono in a letter sent last week to continue cooperating with UN special envoy Ibrahim Gambari to find a peaceful solution to the country's problems.

Presidential spokesman Dino Patti Djalal said the letter showed an encouraging level of continued communication between the two leaders.

"I can't disclose details of the letter but Than Shwe did highlight two points. First, he told the president that he would continue to work with (UN special envoy) Ibrahim Gambari, and second, he vowed to keep the road map to democracy on track," he told *The Jakarta Post* on Wednesday (17/10/07).

Following a violent crackdown on peaceful protests in Yangon and other major cities, Myanmar is under increased international pressure to speed up a road map to democracy the junta promised to follow almost 10 years ago.

The international community has urged the junta to open a dialogue with opposition leader and democracy icon Aung San Suu Kyi to find a way to share power, to stop the arrests of political activists and to release political prisoners, including Suu Kyi.

Gambari, who is seeking to initiate a dialog between Than Shwe and Suu Kyi, met Dr. Yudhoyono and Foreign Minister Hassan Wirayuda on Thursday as part of his tour of the region.

He told reporters that constructive talks with the ruling junta should be pursued, along with incentives for the troubled country.

"We need to go on a combination of strong encouragement to authorities in Myanmar to do the right thing, along with some incentives to the extent that the world is not to punish Myanmar," he said, without elaborating on the incentives.

Dr. Yudhoyono said peaceful dialogue should be encouraged "as soon as possible," with "all related aspects kept in mind."

Wirayuda later told a news conference: "Apart from considerations in regard to democracy and human rights, the process should also ensure stability for the country, and consider the sense of security for the ruling government in the context of a new Myanmar."

Wirayuda suggested the Myanmar military share power with civilian leaders for five years, after which the country could hold democratic elections.

Militants Miss Remissions

The government has granted sentence remissions to 52,317 inmates nationwide but not to a top soccer official and ten militants involved in the 2002 Bali bombings, *The Jakarta Post* reported on Monday (15/10/07).

"They are not eligible for sentence remissions as they have yet to complete a third of their prison terms," Untung Sugiyono, Director General of Penitentiaries at the Ministry of Justice and Human Rights told reporters.

He was referring to a 2006 government regulation stipulating that sentence remission can only be awarded to prisoners who have completed a third of their jail terms for those convicted of terrorism, corruption, drug trafficking, human rights abuses and transnational crimes.

The regulation, enacted on July 28, 2006, also stipulates that inmates jailed for other types of crimes are

required to serve at least six months of their terms and demonstrate good behavior in order to receive a sentence reduction.

In addition to religious holidays, sentence remissions are also awarded on Independence Day every August 17. Remissions on religious holidays range from 15 days to two months, while those on Independence Day range from one to six months.

In September, Soccer Association of Indonesia chairman Nurdin Chalid was sentenced to two years' imprisonment over a Rp169.7 billion (\$18.64 million) corruption case involving the distribution of palm oil, days after the Golkar Party named him to the House of Representatives to replace newly-appointed Justice and Human Rights Minister Justice Andi Mattalata.

The Justice Ministry said 2,373 of the 79,302 prisoners across the country walked free on October 13 after being granted remissions which marked the completion of their sentences.

The warden of Bali's Kerobokan Prison said no sentence remissions were given to militants involved in the 2002 Bali bombing.

"We sent a letter for the remission (of their sentences) but a new regulation requires the remission be issued by the Justice Minister and no longer by the ministry's provincial office," he said.

Those still being held in connection with the bombings are Abdul Raud, who is serving a 16-year sentence, Achamd Roichan (nine years), Junaidi (15 years), Andi Hidayat (15 years), Andri Oktavia (16 years), Maskyur Abdul Kadir (15 years), Abdul Aziz (8 years), Anif Solchanudin (15 years), Mohommad Cholily (18 years) and Dwi Widiyanto (eight years).

REGIONS

Police Force Villagers Off E. Java Volcano

Armed police forced tens of thousands of reluctant residents to leave the slopes of Mt. Kelud in East Java on Friday (19/10/07) amid warnings that an eruption was imminent. The United Nations, meanwhile, mobilized hundreds of aid workers and medical supplies to the area.

Scientists raised the alert at the volcano to the highest level earlier this week, pointing to rising temperatures in the crater lake and deep underground tremors. Authorities ordered 116,000 people living along the fertile slopes to evacuate, but many have refused, saying they need to tend to their crops and animals.

"If we didn't force them the villagers would not budge," local police chief Col. Tjuk Basuki told The Associated Press, adding that residents have been repeatedly warned about the dangers of the volcano. "We had no choice but to do this for their safety."

Mt. Kelud last erupted in 1990, killing dozens. In 1919, a powerful explosion, heard hundreds of kilometers away, destroyed dozens of villages and killed at least 5,160 people.

Volcanic activity appeared to be stabilizing Friday, with no spikes in temperature and a reduction in the number, but not intensity, of underground tremors, said a senior government volcanologist. But he noted that a similar pattern emerged days before the 1990 eruption.

"This is exactly the situation we are most afraid of," he said. "Last time, the volcano stabilized and ... then suddenly erupted. I can't tell what is going on inside Kelud ... but anything could happen anytime now."

The UN said in a statement Friday the World Health Organization had activated 100 medics, put 200 health facilities on alert and established 41 outreach health posts. Emergency health kits, masks and essential equipment also were distributed.

ECONOMY

Moody's Upgrades Ratings

Moody's Investors Service upgraded Indonesia's credit ratings on Thursday (18/10/07), citing progress in cutting its debt and ample foreign exchange reserves and trade surplus, which offer buffers against external shocks, Dow Jones Newswires reported.

The move brings Moody's rating belatedly into line with rankings of BB- by both Standard & Poor's Ratings Services and Fitch Ratings.

Fitch, which has a positive outlook on its Indonesia grade, is still the most upbeat on the country.

Moody's lifted the Indonesian government's foreign- and local-currency bond ratings to Ba3 from B1 and lifted its foreign-currency bond ceiling to Ba2 from Ba3. It said the outlook on all ratings is stable.

"Along with prolonged fiscal restraint and recurrent under-execution of regional and local level spending targets, exchange-rate appreciation has also assisted in reducing the government debt ratio from a high of 100% of gross domestic product (GDP) in 2000 to an expected 34% in 2008," Moody's lead analyst for Indonesia Aninda Mitra was quoted as saying.

Gundy Cahyadi, an economist at IdeaGlobal, said the rating upgrade wasn't surprising given that Moody's had signaled it earlier in the year.

"Certainly, fundamentals of the economy have shown improvement over the past few years, especially in terms of the external debt-GDP ratio. The government commitment to shift the allocation of debt to domestic debt has helped on this front, and we continue to see the budget for 2008 highlighting this same aspect," he said.

Moody's also raised the foreign currency long-term debt and foreign currency long-term deposit ratings of 11 Indonesian banks -- Bank Central Asia, Bank Danamon, Bank Internasional Indonesia, Bank Lippo, Bank Mandiri, Bank Negara Indonesia, Bank Niaga, Bank Permata, Bank Rakyat Indonesia, Bank Tabungan Negara and Pan Indonesia Bank.

There was some concern over rising oil prices but analysts said the signals were mixed over its impact on the Indonesian economy.

In Tokyo, Economic and Fiscal Policy Minister Hiroko Ota said Friday that higher prices would affect the economy of Japan, Indonesia's largest trading partner.

But Indonesia's OPEC governor, Maizar Rahman, told Dow Jones Newswires on Thursday the government will see \$730,000 a day in net windfall profit for every \$1 increase in oil prices.

Government revenue from oil, gas and coal reached Rp215 trillion (\$24 billion) in 2006.

At the same time the government paid Rp60 trillion in fuel subsidies, resulting in net revenue from energy products of Rp155 trillion. The country's natural gas and coal prices rose in tandem with oil prices, he said.

There was also speculation that higher oil prices would boost prospects for the biofuels industry, in which the government and private interests are investing more than \$5 billion.

The private sector saw a major move by shipping company PT Berlian Laju Tanker, which reported it had agreed to pay \$850 million for Chembulk Tankers LLC.

Berlian Laju's acquisition will give it control over 19 chemical tankers and help in transporting petrochemicals, acids and edible oil to and from the US to South Asia, the Middle East and China, Bloomberg said.

The Jakarta Stock Exchange composite index lost 2.8% in value over the week, closing on Friday at 2,563.75, with the fall attributed to profit-taking. The rupiah was trading at 9,082/9,090 to the dollar.

BUSINESS BRIEFS

MACROECONOMY

Q3 Growth Seen at 6.2%-6.4%

The Finance Department estimated that the economy grew by between 6.2% and 6.4% year-on-year in the third quarter.

The department said in a statement issued on Thursday (18/10/07) that key economic indicators, including private consumption, government spending, investment and export experienced faster growth than last year.

"The government is confident the economic development is on the right track to achieve the 2007 growth target of 6.3%," it said, according to Xinhua.

INVESTMENT

Riau Islands Expects \$5b Investment Over 5 Years

Riau Islands hopes to attract up to \$5 billion in new foreign investment over the next five years after parliament passed a bill turning the area into a free trade zone, its governor said Wednesday (17/10/07).

The free trade bill offers investors benefits that include exemption from import duties, value-added tax and sales tax on luxury goods in the province's main industrial islands of Batam, Bintan and Karimun.

"Parliament's approval is a positive sign for foreign investors from all over the world. We have 26 signed agreements worth \$1.7 billion spread over Batam, Bintan, and Karimun waiting for the law," Ismeth Abdullah told Reuters in an interview.

"Among the big players seriously interested in investing are an oil company from the US and an Italian shipyard firm. The two of them combined will contribute around \$600 million."

Abdullah said major companies from Singapore, Japan, Taiwan, Europe and the Middle East are also interested in investing in the islands, which could create about 900,000 jobs over the next five years.

"We will control all the investment activities at an integrated office, to avoid bureaucratic hurdles in FTZ. We will make those three islands as a zero obstacle zone for investment," he said.

The new bill, which still has to be approved by the president to become law, only applies to the three islands, but Abdullah said he expects the benefits to trickle down to the entire province.

Fresh investment will almost double the share of exports from the islands to 25% of Indonesia's total exports over the next five years, from 14% currently. Exports reached \$100.69 billion last year, and were up 14.3% in the first half of the year to \$53.62 billion, the governor said.

Meanwhile German-based electronics component manufacturer Electronics Parts and Components (Epcos) has invested \$10 million in the Panbil industrial zone in Batam, Riau Islands due to the island's competitive edge, Epcos supervisory board chairman Klaus Ziegler said Monday.

Epcos Indonesia CEO Stephen Samuel said Batam is more competitive than Malaysia's Iskandar industrial area and other industrial zones in Southeast Asia.

The company will begin producing car heating and cooling systems in June 2008, Ziegler was quoted as saying by Antara.

Dubai's Limitless Eyes \$1.7b Project

Limitless, a real estate arm of Dubai World, is looking to develop a mixed-use project in Jakarta at an estimated development cost of \$1.7 billion.

The company may invest about Rp2 trillion (\$220 million) for a 30% stake in PT Bakrie Swasakti Utama, a unit of property developer PT Bakrieland Development, Bloomberg News reported, citing Bakrieland spokesman Nuzirman Nurdin.

Limitless spokeswoman Rebecca Rees confirmed to *Gulf News* the company has signed a memorandum of understanding to work on the \$1.7 billion Rasuna Epicentrum project in Jakarta, but "the details have not been finalized yet". She declined to say how much the company is paying for its stake in the Bakrieland unit.

The project covers 37 hectares and will have commercial offices, apartments and retail space. The Dubai company has a development team in Singapore to look for opportunities in Southeast Asia, and Jakarta will be its second project in the region after one in Vietnam.

HIPMI Signs MoU with Young French Entrepreneurs

The Association of Indonesian Young Businessmen (HIPMI) signed a memorandum of understanding with young French entrepreneurs grouped in the France-Indonesia Society to increase cooperation in trade and investment, Antara reported.

The group signed the MoU in a ceremony in Paris on Tuesday (16/10/07) attended by young French entrepreneurs, UNESCO officials, Education Minister Bambang Sudibyo and Indonesian Ambassador to France Arizal Effendi, it said in a press statement issued on Wednesday (17/10/07).

Under the MoU, the two countries' young entrepreneurs would develop cooperation in trade and investment.

HIPMI general chairman Sandiaga Uno said in his address at the ceremony that the MoU would serve as a foundation of a forum of French and Indonesian decision-makers for an exchange of information on potential sectors of cooperation.

He said further meetings would be held to follow up on the MoU with concrete cooperation agreements for the coming year.

STATE CONCERNS

VP Backs Hybrid Rice to Raise Food Stocks

Vice President Jusuf Kalla said the country must embrace hybrid rice to improve rice production and strengthen national food reserves.

"The government's decision to introduce hybrid rice varieties through the private sector hopes to improve the economic livelihood of farmers and the country's rice production so that Indonesia will no longer rely on imported rice to supply national food stocks," he said during a dialogue with farmers, *The Jakarta Post* reported Wednesday (17/10/07).

Kalla was inaugurating a 30-hectare integrated hybrid rice research center belonging to PT Sumber Alam Sutra (SAS), one of 18 private companies developing Chinese-developed hybrid rice varieties in the country.

The vice president said that with shrinking farmland, Indonesia has to promote the use of hybrid rice, intensify farming technology and multiply harvests to allow the country to double rice production levels from 5 million to 10 million tons a year within the next two years.

He said that while the seeds are being imported, the use of hybrid rice varieties would benefit farmers and the country by alleviating rice imports. "It is better for us to import seeds than rice, to save our foreign exchange," he said.

Agriculture Minister Anton Apriyantono, accompanying Kalla at the dialogue, said that with the new rice program, Indonesia aims to produce 7 million tons of rice in 2009 and reach rice self-sufficiency by 2013.

SAS has a partnership program with farmers using a soft-loan scheme from private and state banks.

Indonesia Slightly Miss Palm Oil Target – Minister

Indonesia forecast that it would miss a target for output of palm oil this year because of dry weather, exacerbating a shortage of the commodity that has helped drive the price to a record.

"Last year, our production was around 16 million tons and this year the prediction was 17, but because of weather conditions, it's going to end up about 16.8," Trade Minister Mari Pangestu said. Still, output this year is still at a record.

"The main concern is the supply," said Ben Santoso, an analyst at DBS Vickers Securities Indonesia. "We don't think demand is going to slow down, which is why prices won't come off very much."

"Prices will not plummet or go up too high, but it's not going to come down from where we are now for too much," Pangestu was quoted as saying by Bloomberg News in an interview on Tuesday (16/10/07). "A lot depends on the price of oil itself, crude oil, fossil fuel, and that's at the moment relatively high."

The minister's figures tally with those from Derom Bangun, head of the Indonesian Palm Oil Association. Output this year would be 17 million tons, Bangun said last August 29, trimming an initial forecast made in May for output of 17.4 million tons. He has forecast an output of 18.4 million tons for 2008.

"We're obviously looking to expand production, not by clearing land, but finding land that is already cleared," Pangestu said.

SOEs

Widjaya Karya IPO Priced at Rp420/Share

State construction firm, PT Wijaya Karya, said Friday (19/10/07) it aims to raise Rp775.4 billion (\$85.3 million) by offering 29.3% of its enlarged share capital via an initial public offering (IPO), Reuters reported.

The company said in a statement that it plans to use the proceeds as working capital and to strengthen its capital base. Wijaya Karya will offer the shares on October 22-24 and has appointed PT Bahana Securities, PT CIMB-GK Securities Indonesia and PT Indo Premier Securities as lead managers.

The shares will be listed on the Jakarta Stock Exchange on October 29. The price was set at the top end of a Rp320-Rp420 range the company provided previously, indicating optimism over investor demand for the IPO.

PRIVATE SECTOR

Berlian Laju Buys Chembulk Tankers for \$850m

PT Berlian Laju Tanker, the country's biggest shipping company by market value, will pay \$850 million to buy Chembulk Tankers LLC in its first acquisition in at least five years.

Berlian Laju will buy the company and its fleet from Chembulk Holdings Inc, the company said in a statement to the Singapore Stock Exchange on Monday (15/10/07).

The purchase of the owner of 11 chemical tankers will be "immediately accretive" to its earnings and cash flows, Berlian Laju said, according to Bloomberg News.

The acquisition of Marshall Islands-based Chembulk will help Berlian Laju become the world's third largest operator of stainless steel chemical tankers in terms of capacity, the company said.

Berlian Laju wants to "grow faster" and may acquire a company in Europe to expand its fleet, finance director Kevin Wong said in a May 22 interview.

Chembulk's fleet, which can carry between 16,400 deadweight tons and 32,000 deadweight tons, has an average age of 3.7 years, compared with an industry mean of 12 years, the company said in the statement.

Ace Hardware Eyes Up to \$53m from IPO

Hardware retailer PT Ace Hardware is aiming to raise up to \$53 million from the sale of 30% of its enlarged share capital in an initial public offering (IPO), a source familiar with the situation said on Thursday (18/10/07).

The source, who declined to be identified, said the company plans to offer 515 million new shares at Rp710 to Rp935 each, raising between \$40 million and \$53 million, Reuters reported.

Ace Hardware, currently 99.99% owned by major hardware distributor PT Kawan Lama Sejahtera, has said it plans to use the proceeds from the sale to fund expansion.

Ace Hardware will offer the shares on November 14-16, and has appointed the Indonesian arm of CLSA, PT CLSA Indonesia and PT Dinamika Usahajaya, to handle the offering.

Ace Hardware has 22 stores throughout the country with a total retail area of 60,600 sq meters. The company booked a net profit of Rp27 billion in 2006, up from Rp17.5 billion a year ago. Its sales climbed to Rp638.95 billion last year from Rp483.7 billion in 2005.

Sept. Motorcycle Sales Dip On-Year

Motorcycle sales dropped 3% to 478,853 units in September from the same time a year ago, but were up 11.6% from the previous month, data released by an industry group on Wednesday (17/10/07) showed.

For the first nine months of 2007, motorcycle sales rose 9.2% to 3.4 million, the Indonesian Motorcycle Industry Association (AISI) said, according to Thomson Financial.

PT Astra Honda Motor continued to be the market leader, accounting for nearly half of units sold. The company had sales of 239,267 bikes in September, up 27.6% from August. Astra Honda Motor is a 50-50 joint venture between PT Astra International and Japan's Honda Motor.

Sales of rival Yamaha Motor dropped to 164,339 last month from 168,708 in August. The third biggest brand, Suzuki Motor, saw its sales rise to 68,261 from 65,334.

In the first nine months, Honda grabbed a market share of 42.9% compared to Yamaha's 40.9% and Suzuki's 13.4%.

BANKS

Bank Lending Expands on Strong Economy

The banking industry has rebounded from a disappointing 2006, with lending poised to register growth of more than 20% by the end of the year.

According to data from the central bank, bank lending as of the end of August had reached Rp893.5 trillion, up nearly 23% from the same period last year, as the economy continues to improve, slowly ironing out the recent problems of low demand and high borrowing costs, *The Jakarta Post* reported on Tuesday (16/10/07).

More than half of total lending was disbursed as working capital loans, which grew by 23% year-on-year to Rp461.7 trillion.

Both investment and consumer loans showed solid growth as well, rising nearly 26% to Rp174.4 trillion and more than 24% to Rp257.4 trillion, respectively.

Most of the working capital and investment loans went to businesses in the manufacturing, trade and tourism industries, while consumers in the country took up more mortgages, car and motorcycle loans.

Small and medium enterprises (SMEs) were a main lending market, with loans to the sector increasing by 20% to Rp461.7 trillion.

Bank Indonesia (BI) is eyeing overall loan growth of 22% for this year, from 14% last year.

Although borrowing costs in the country are still high, the average base lending rates have declined to 13.4% from 14.9% in August last year, in line with BI having trimmed its key rate to 8.25% at present.

The economy is also expected to grow higher by 6.4% in the third quarter from 6.3% the previous quarter on rising consumer spending and investment.

"Bank lending should be able to continue growing as well until the end of the year on that development, and on the back of a likely 25% growth in loans to the SME sector," industry analyst Djoko Retnadi said.

"The public's purchasing power having recovered from the effects of previous fuel price hikes should also drive more mortgages and auto consumer loans."

Danamon Syariah Unit Performing Well

Bank Danamon Syariah, the shariah unit of Bank Danamon, said Monday (15/10/07) it disbursed Rp35 billion (\$3.86 million) in asset-based financing as of the end of September, only months after it introduced the scheme in July.

"We have channeled Rp35 billion out of the end-of-year target of Rp50 billion," deputy president for business development Dodong Cahyono was quoted as saying by *The Jakarta Post*.

Asset-based financing is a type of lending that treats assets purchased by the loan as collateral. "It's like when a fisherman buys a fishing boat, the boat (he purchases) becomes the asset that we deem as collateral," Cahyono said.

The asset-based financing figure makes up 10% of the bank's total loans, which he said amounted to Rp350 billion as of the end of September, with more than 80% going to micro, small and medium businesses.

The availability of collateral for a loan is a must in the shariah industry, which forbids interest.

Cahyono said the bank's asset-based financing scheme generated plenty of interest in Kalimantan, Jakarta and Makassar.

"In Kalimantan, the scheme is often used to finance heavy machinery and equipment in the manufacturing sector," he said, adding the bank had been cooperating with heavy equipment suppliers like PT Trakindo to minimize investment risks. He said other heavy-duty assets, such as sea barges, are commonly financed.

Mandiri Names Managers for Bond Sale: Report

PT Bank Mandiri, Indonesia's largest lender by assets, appointed Deutsche Bank AG and Barclays Plc to help manage the sale of \$300 million of five-year bonds, *Bisnis Indonesia* reported.

Jakarta-based Bank Mandiri is awaiting approval of the sale from the central bank, Bank Indonesia, the paper reported, citing Thomas Arifin, treasury director of the bank.

Hana Buys 60% Stake in Bank Bintang Manunggal

South Korea's Hana Financial Holdings said Friday it recently bought a 60% stake in Indonesia's PT Bank Bintang Manunggal in a move aimed at growing its presence in emerging Asian markets, Dow Jones reported.

POWER

PLN Hopes to Cut Fuel Spending By \$185m

State-owned electricity firm PT PLN plans to save Rp1.7 trillion on fuel spending next year, *The Jakarta Post* reported on Monday (15/10/07).

President director Eddie Widiono said PLN -- in addition to its conversion programs, including oil-to-coal and oil-to-gas -- had decided also to lessen the use of high speed diesel (HSD) and switch instead to the cheaper medium fuel oil (MFO) to fire its power plants.

On the global market, the price of MFO usually hovers around Rp2,000 cheaper than HSD. PLN power generation director Ali Herman Ibrahim confirmed the plan, saying that by next year the ratio for the consumption of MFO and HSD would be 60% to 40% from a ratio of 50:50 this year.

He said that this strategy was needed to cover PLN's latest decision to increase its fuel consumption to 10 million kiloliters in 2008, from the previous target of only 7 million kiloliters.

OIL & GAS

RI May Earn \$6b From Senoro LNG plant

The government is projected to earn up to \$6 billion in revenue under a 15-year production split scheme for a new LNG plant in Senoro, Central Sulawesi, a source close to the deal told *The Jakarta Post*.

The revenue is based on a production split arrangement under which the government will gain 85%, while the Senoro block operators -- state oil and gas firm PT Pertamina and Medco Exploration and Production (E&P) -- will gain 15%, Medco E&P president director Lukman Mahfoedz said Tuesday (16/10/07).

The plant uses a complicated downstream business structure, under which the gas producers -- Pertamina and Medco -- will sell the gas to LNG plant owners Pertamina, Medco and Japanese firm Mitsubishi, who will then sell the liquefied gas to third parties.

The LNG plant is 51% owned by Mitsubishi, 29% by Pertamina and 20% by Medco. Lukman said construction of the LNG plant, designed to produce a total capacity of two million tons per annum, could begin in the first quarter next year.

Construction costs are estimated at around \$1 billion, with the plant expected to start production in the second quarter of 2011. It was earlier reported that gas from the LNG plant would be exported to Japan despite increasing domestic demand, according to Pertamina vice president director Iin Arifin Takhyan.

The fact that a Japanese company, Mitsubishi, is involved in the Senoro LNG project as a majority shareholder supports the idea LNG from the plant would be shipped there, Takhyan said.

Indonesia will only be able to commit an export total of three million tons per year after the current contracts end in 2010. Under existing contracts, Indonesia supplies 12 million tons of LNG a year to Japan.

PGN Starts Transporting Fuel from Sumatra

State-owned gas distributor PT Perusahaan Gas Negara (PGN) started operating a section of a pipeline that will allow it to transport the fuel from ConocoPhillips's area in Sumatra to western Java.

The Grissik-Pagardewa pipeline project is part of a 661-km long gas pipeline from South Sumatra to West Java with peak volumes of 480 million cubic feet per day.

PGN expects 20 million cubic feet a day of gas to reach customers in a week, Sutikno, president director of the company, told Bloomberg on Thursday (18/10/07). The volume may rise to 50 million cubic feet a day by year end, he said.

The opening of the latest segment will allow PGN to boost sales after falling behind in the development of the project. The company said on September 18 that it cut sales target for the second time this year due to delays on the project to build two pipelines to connect Sumatra and Java.

The Sumatra-Java pipelines currently transport a maximum of 150 million cubic feet a day, Sutikno said. Customers will get as much as 200 million cubic feet a day by year end through the links, he said.

"The problem is whether the customers are ready" to take the contracted gas, he said. "The usage will gradually go up."

Supply from the Sumatra-Java pipelines was initially expected to double the company's sales this year from an average of 338 million cubic feet last year, the company said in January. PGN's revenue also comes from transmission fees.

EMP May Sell Stakes in 4 Blocks

PT Energi Mega Persada (EMP) may sell stakes in four petroleum areas to accelerate development of the concessions and reduce financial risk.

Jakarta-based EMP may sell parts of Bentu, Korinci Baru, and Gelam areas in Sumatra as well as Semberah block in Kalimantan, president director Christian Ponto told Bloomberg on Thursday (18/10/07).

The proposed sale may help EMP hasten development of the gas areas and benefit from record crude oil prices. The company will look to acquire gas concessions in Indonesia and overseas to make up for the loss of the stake of oil and gas rights.

The company in March sold a 50% stake in its biggest gas area in East Java, Kangean, to a group including Mitsubishi Corp., which will spend \$400 million to develop the field.

The areas have combined proven and probable reserves of 122 million barrels of oil equivalent, of which about 82% is gas, according to the company's Web site. EMP is requesting approval from oil and gas regulator BPMigas to sell the stakes, Ponto said, declining to name potential buyers.

Meanwhile EMP has targeted the Kangean gas block to start production in 2010.

Investor relations head Herwin Wahyu Hidayat told *The Jakarta Post* on Monday that Terang, Sirasun and Batur fields -- all located in the block -- were expected to start commercial production in the first quarter of 2010 at a rate of some 300 million cubic feet of gas per day.

The projected output will significantly increase the company's current production rate of 60 mcf/d.

Kangean, one of EMP's seven oil and gas blocks in Indonesia, has potential natural gas reserves of 1.5 trillion cubic feet, among the largest in the world. "The fields' big potential is the one factor that has attracted other investors, like Mitsubishi, to jointly operate the block," Herwin said.

Earlier this year, EMP sold 50% of its stakes in the block to a consortium of Japan's Mitsubishi Corporation and Japex Petroleum Exploration.

The block has recently resumed oil production at a rate of 3,500 barrels of oil per day, after technical problems at its storage units led to a six-month halt.

Herwin said the company had replaced the storage facility with a new one that offered a bigger storage capacity of 230,000 barrels.

The company is hoping to gradually increase output to 5,000 bpd by December, which would account for almost 25 percent of EMP's total oil production.

No Need for OPEC to Add Supply: Indonesia

There is no need for OPEC to add more supply to the oil market after recently adding 500,000 barrels per day of additional supply, Energy Minister Purnomo Yusgiantoro said Wednesday (17/10/07).

He said soaring crude oil prices were due to geopolitical factors and that there was currently no sign of OPEC calling an emergency meeting. "There is no fundamental factor on supply and demand," the

minister told Reuters by telephone, pointing to geopolitical factors such as tensions between Turkey and Kurdish separatists in northern Iraq.

"With 500,000 bpd of recent OPEC policy to add supply, actually there is no need for more," he said.

Yusgiantoro said the fluctuations in the oil market were difficult to assess at this time. "The oil price development is amazing, but no one can predict it."

MINING

2007 Coal Production 20% Above Target: APBI

Indonesia's coal production is predicted to rise 20% from this year's target of 215 million tons due to strong market demand and good prices, Jeffrey Mulyono, chairman of the Association of Coal Mining Companies (APBI) told Antara on Thursday (18/10/07).

Demand from China and India is expected to continue to increase in the next several years, Mulyono predicted. The prices will remain high as supply will fall short of requirements, he added.

He said at least 70% of the country's coal production will be exported.

The government is expected to impose coal export restrictions in 2010 when domestic requirements will rise sharply after the completion of a number of large coal-fired power plants.

The government is currently undertaking a crash program to build coal-fired power plants with a total capacity of 10,000 MW to be completed before 2010.

Good Progress at E. Kutai: Churchill Mining

Churchill Mining said Wednesday (17/10/07) that exploration and drilling continues successfully at its East Kutai Coal Project (EKCP) in East Kalimantan.

Total meters drilled since the commencement of the program is 3,891 million. To date, 36 holes have been drilled, Dow Jones quoted a company statement.

To date over 250 coal outcrops have been mapped on the EKCP with coal thicknesses ranging up to more than 20 meters in outcrop.

The company believes that based on current project findings, it does not appear that the coal will require drying before it can be exported.

Churchill said it expects the first coal volume calculations in January 2008, when it will provide a more detailed report to the market.

Stonehenge Buys 85% Stake in Nickel Project

Australia's Stonehenge Metals said Wednesday (17/10/07) it has signed an agreement with PT Global Titik Persada to acquire an 85% interest in the Mandiodo laterite nickel project located on the southeast coast of Sulawesi, *Platts Commodity News* reported.

The project covers 3,104 hectares, and earlier drilling had identified nickel laterite mineralization over an area 4.2 km long and 1 km wide with an average thickness of 13 m. The mineralized drill hole intersections had average grades of 1.3% nickel.

Stonehenge added that the project was untested to the north and west coasts of Sulawesi and there was significant potential to expand the size of the deposit.

In addition, a portion of the deposit had metallurgical characteristics potentially amenable to direct smelting and may be suitable for direct shipping to nickel smelters in Australia and Japan.

NEWS REPORT

The Australian

Monday, October 22, 2007

Terrorists who say no to terror

By Natalie O'Brien

Australia could benefit from programs launched by Muslims who have renounced violence and are steering radicals away from jihad, writes Natalie O'Brien

THEY were considered to be among the world's worst terrorists. Between them they have been responsible for hundreds of horrific deaths, including those of dozens of Australians.

But these killer jihadis once hell-bent on destruction and mayhem are now campaigning to stop others following in their footsteps.

Among them is one of the key Bali bombers, Ali Imron. He is the Jemaah Islamiah member who, five years ago, loaded a van with explosives and drove it to the Sari Club, where he handed it over to the suicide bombers who set off a blast that killed 202 people, including 88 Australians.

Imron is haunted by his actions and is working from his Indonesian prison cell to prevent others from following in his footsteps.

``I've been writing a book and other materials about my ideas.

Also, every time my family or friends visit me, or I send a message to others outside prison, I always say it was a mistake to carry out the bombings.

``It was the wrong kind of jihad," he said in a recent interview.

Imron is making cassettes of sermons that are being played at his family's madrasa in East Java.

``I will continue to ask for forgiveness from the victims and their families," he has said. ``I will never stop asking for forgiveness."

He has joined the growing number of terrorists who have been rehabilitated and who have renounced violence. Prominent among them is one of JI's top commanders, Nasir Abas, who has spent the past few years helping authorities.

Abas, once the leader of the JI cell known as Mantiqi3, which encompassed northern Indonesia and parts of Malaysia and The Philippines, ran the JI Hudaibiyah training camp in the southern Philippines in the 1990s. Trainee militants came from various nations, including one from Australia in 1999.

Abas, a specialist in weaponry such as guns and artillery, trained hundreds of jihadis, including the Bali bombers. He is the brother-in-law of Bali bomb mastermind Mukhlas.

Abas was arrested in Indonesia for immigration breaches and jailed for 10 months. But after his release in 2004, he became the JI network's most important turncoat. He gave evidence against radical preacher Abu Bakar Bashir and has been helping police with investigations into JI. He has also written a book aimed at discrediting JI and its leaders.

Abas has also become an important key in the success of Indonesia's deradicalisation programs involving jailed or detained JI members. US terror expert Zachary Abuza says in a forthcoming book, *Leaving Terrorism Behind* (edited by John Horgan and Tore Bjorgo) that one of the reasons Abas has given for changing sides was the "decent and humane treatment" he received from police.

"He was not beaten or tortured but instead invited to pray with the police during interrogation sessions, thereby undermining JI's assertions that the Government was murtad (a traitor to Islam)."

Abuza says such programs have become a cornerstone of the Malaysian, Singaporean and Indonesian counter-terrorism programs. He adds that just as there is a process to becoming a terrorist, there is a process of disengagement from a militant group.

In Indonesia more than 300 people have been arrested, including 50 in leadership positions with JI. Of those almost 30 have been rehabilitated and are actively co-operating with the Government.

Abuza argues that one of the reasons behind the success of Indonesia's programs is that the leaders of the crack anti-terrorism squad known as Detachment 88 are deeply religious.

Indonesian counter-terrorism official senior superintendent Tito Karnavian told Abuza that after the 2005 Bali bombing, former JI members, including Abas, spent a week with the detained suspects before police interrogators even got to them.

"When their Islamic argument is already defeated, then it is easy for us. Then we enter," Karnavian says.

Abuza also quotes Karnavian as saying that leaders such as Abas are hierarchical and consciously respectful of and deferential towards authority. "We can use them, they respect seniority very much."

The head of Detachment 88, Brigadier-General Surya Dharma, has also led prayers in the prisons and allowed interrogation sessions to be interrupted for prayers.

But Abuza says the rehabilitation programs in Indonesia have been ad hoc, under-financed, understaffed and not part of a wider, institutionalised program.

Last February the Indonesian parliament backed a deradicalisation program based on addressing root causes such as poverty and the madrassas, and working with clerics.

Nowhere is the deradicalisation process led by reformed terrorists more influential than in Egypt, where some of those counted among the founders of modern Islamic terrorism have renounced violence and launched a campaign of so-called Islamic revisionism.

Karam Zuhdi, a former leader of the militant group Gama'a al-Islamiyya, is on a mission to deter recruitment for violent jihad.

Zuhdi, a former extremist who was imprisoned for 25 years for plotting with the militant group Islamic Jihad in the 1981 assassination of Egyptian president Anwar Sadat, is now touring prisons lecturing detained jihadis against violence.

Gama'a al-Islamiyya is the largest militant group in Egypt and was behind the 1997 Luxor shooting that claimed the lives of 58 foreign tourists. The group also claimed responsibility for an attempt in June 1995 to assassinate President Hosni Mubarak in Addis Ababa.

The group's spiritual leader is Omar Abdel Rahman, better known as the blind sheik, who in 1996 was sentenced to life in prison for his role in a 1993 attempt to blow up the World Trade Centre in New York. Experts say Osama bin Laden's terrorist network had its roots in Egyptian extremist groups such as Gama'a al-Islamiyya, many of whose members have since joined al-Qa'ida.

Monash research fellow Sayed Khatab, who recently travelled to Egypt to interview Zuhdi, says the former terrorist could help fight Islamic radicalism in Australia. He says it would be beneficial to bring Zuhdi to Australia to talk to local Muslim communities and to extremists who have been jailed for terrorist offences. However, Zuhdi would require special dispensation from the federal Government to travel to Australia because of his former links with a terrorist group.

"This group was the pioneer of violent jihad," Khatab says.

"They were the first to adopt it as the only option to achieve their goals, and then the first group to renounce that option."

He believes Zuhdi is the right person to speak to others who have been -- or are likely to be -- radicalised because "they speak the same language".

Zuhdi helped with the reformation of other members of his group while serving his jail term. "These people lived together, actively worked together and killed together," Khatab says.

"At the time they were extremely violent and now they have renounced violence. His message now to other radicals is that they were wrong."

According to press reports in Egypt, the Zuhdi program of denouncing violence is being embraced by inmates who have been jailed for violent crimes. The Egyptian Government has backed the program and has also financed the publication of revisionist books written by jihadists in prison.

Khatab believes that it was the extensive education program that Zuhdi undertook while he was incarcerated that led to his turnaround.

The expert on Islamist politics says the Egyptian Government has helped by allowing the leaders of the group to move between different jails to spread the word about their reformation to other members.

Khatab, who has written about Gama'a al-Islamiyya in his book *The Power of Sovereignty*, says it is important to recognise the role authorities can play in deprogramming terrorists. "If they (the terrorists) had stayed ignorant, they could not have come to this stage," he says.

There are no deradicalisation programs in place here, although Australian Federal Police commissioner Mick Keelty has been an advocate for deprogramming extremists and pushed unsuccessfully for the strategy to be included in the federal Government's anti-terror legislation.

However, the AFP is conducting research into how people become radicalised in the first place. "Understanding how people are susceptible to the influence of radical ideology (and) being able to identify traits which make people vulnerable to radicalisation are essential for the development of rehabilitation and preventative programs," says Frank Prendergast, the AFP's national manager for counter-terrorism.

The Australian Strategic Policy Institute has drawn up a five-point plan it believes should be used to tackle the problem before people become radicalised.

The Canberra-based independent think tank has published a paper recommending a plan that starts with a national counter-radicalisation strategy, which it says should be developed by the Council of Australian Governments. It recognises the need for respected Muslim leaders to be given the opportunity to publicly rebut extremist sentiments and actions.

The authors of the report, ASPI research director Anthony Bergin and terrorism experts David Martin Jones and Carl Ungerer, conclude that "the Australian Government and law enforcement agencies should aim to drain the ideological swamp in which radicalisation thrives before it becomes fully established".

The ASPI paper, *Beyond Belief: Islamism, Radicalisation and the Counter-terrorism Response*, says it should focus on the earliest stages of radicalisation, when intervention can be most effective.

It also suggests countering militant radicalisation on the web should be one of the key focuses. A strategy to disrupt the recruitment process should be included as part of the national counter-terrorism plan.

The 22-page paper also suggests a permanent Australian Muslim national security forum be established, involving Muslim communities and state, territory and federal police with a youth council that could play a crucial role in detecting those prone to radicalisation.

"The AMNSF," the paper says, "would not only identify and combat extremism but also act as a think tank analysing the dynamics of disaffection. It would share information on possible threats and give religious and community leaders a platform to condemn terrorist acts."

The paper recommends an urban counter-terrorism policing program that strengthens ties with the community and makes it easier to reach groups in danger of being radicalised.

But despite the efforts of governments, think tanks and reformed terrorists such as Imron, many extremists remain unrepentant.

Imron's brothers Amrozi, known as the smiling assassin, and Mukhlas are defiant about their role in JI and the Bali bombings five years ago.

Mukhlas is even trying to undermine his brother's good intentions by sending recordings of his own sermons to the family madrassa. As he sits on death row facing execution, possibly within weeks, Mukhlas's message remains focused on hatred and violent jihad.

Natalie O'Brien is a senior writer at The Australian.

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