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REPUBLIC OF INDONESIA

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POLITICS

Airlines Told Don't Buy European

Indonesian airlines should not purchase European aircraft while a European Union ban on flights into its air space remains in force, the Director General of Air Transportation, Budhi Suyitno, said Tuesday (18/12/07), *Kompas* reported.

The government had decided not to send an inspector to Europe for inspection and registration of new aircraft being purchased by Indonesian airlines, he said. This would mean that inspection and registration would have to be performed in Indonesia, costing the airlines an additional \$200,000 per aircraft.

"Why should we buy European aircraft if we are not able to fly them there. I have already advised all airlines of our position," he told reporters.

He said the reasons for the European ban were less than clear, since statements by European officials were conflicting. "Originally the reason was because our notifications were late. Then this changed to become a problem with flight regulations. Finally they have said there is a problem with the results of aircraft accident investigations within the Universal Safety Audit Program," he said.

Suyitno said Indonesia had formally complained to the International Civil Aviation Organization, since its rules stated that the results of accident investigations could not be used as the basis for sanctions.

Mandala Airlines is contracted to purchase 30 Airbus A-320 aircraft while Batavia Air wants to buy 16 ATR aircraft. Mandala, now foreign-operated, said it was lobbying in Europe to have the ban removed.

Minister of Transportation Jusman Syafi Djamal said the EU will send a new delegation to Indonesia in January for talks on airline flight safety with local aviation authorities, *Antara* reported.

The EU banned all 51 Indonesian commercial and charter carriers as well as cargo planes from flying into its air space on July 6. Hopes the ban would be at least partially lifted were dashed in November in the first of regular three-monthly reviews since the ban began.

Indonesia said recently that it was annoyed with the extension of the ban, and said it would suspend cooperation in talks on open skies policy with the EU.

Death Row Bali Bombers Given One Month

Three Indonesian militants facing execution for the 2002 Bali bombings will get one month to seek presidential clemency after being officially notified of the rejection of their final appeal, a prosecutor said on Wednesday (19/12/07), *Reuters* reported.

Made Sudarmaja, the chief prosecutor in Denpasar, spoke after a court official said a copy of a Supreme Court verdict rejecting the convicts' final appeal would be delivered to them later in the week.

"If after one month they failed to request presidential clemency, execution would be immediately carried out," Sudarmaja told reporters.

The three men -- Amrozi, Imam Samudra and Mukhlas, alias Ali Gufron -- have said they will not seek clemency from President Susilo Bambang Yudhoyono, saying they wanted to die as martyrs.

I Bagus Madeg, a spokesman for the Denpasar district court, where the Bali bombers were tried, said his office had received the copy of the Supreme Court verdict.

"We will convey the contents of the verdict to the convicts and their families as soon as possible," he said.

He said Nusakambangan, the prison island off the southern coast of Java where the three are being held, is among three locations being considered for a possible execution site.

Abu Dujana: 'Obligation' to Jihad

The self-confessed leader of the militant wing of Jemaah Islamiyah (JI), Abu Dujana, told an Australian reporter on Wednesday (19/12/07) that terrorists still at large had an obligation to make new attacks.

Asked by *The Age* if more terrorist attacks were planned, Dujana said: "There are other cadres out there . . . it is their obligation."

Abu Dujana has also told prosecutors that the controversial Muslim cleric Abu Bakar Ba'asyir was the group's emir, or spiritual leader, for years.

Meanwhile an alleged aide to Dujana, Aris Widodo, alias Tri, faces three to 15 years in jail for not reporting Dujana's presence to the authorities, and for withholding information on terrorism, Detikcom reported.

Prosecutor Bayu Adhinugroho said Monday that Widodo's actions contravened articles 13 and 17 of Law No 15/2003 on Acts of Terrorism.

"Abu Dujana asked the accused about his expertise. He answered computers. Abu Dujana asked further if the accused could use the internet and he answered yes," said Adhinugroho.

Indonesian Embassy Hosts MNLF Talks

The Organization of the Islamic Conference (OIC), government of the Republic of the Philippines (GRP), and the Moro National Liberation Front (MNLF) have chosen the embassy of Indonesia in the Philippines as the seat of the joint secretariat (JS) for tripartite talks to review the implementation of the 1996 final peace agreement (FPA) on a settlement of conflict in the country's south.

Nabil Tan, undersecretary at the Office of the Presidential Adviser on the Peace Process (OPAPP), told the *Manila Bulletin* Saturday (22/12/07) the three-way meeting was "proceeding smoothly".

MNLF counsel Randolph Parcasio shared Tan's observation, reporting that they have scheduled the five-day meeting for January 3-7. "We hope we will reach a consensus on how to implement the peace accord in its totality," Parcasio said.

Brokered by the 57-member OIC, the FPA was initialed in Cipanas, Indonesia, and signed in Manila on Sept. 2, 1996, ending the MNLF's three decades of fighting the so-called "imperial Manila government."

The national government and MNLF ran into a dispute on its implementation. This prompted the OIC to convene the long-dormant three-party conference, tasked with focusing particularly on Phase 2, which deals with socioeconomic aspects of the FPA's implementation.

Tan said the joint secretariat will have five members each from the national government and MNLF. "The three parties unanimously agreed to pick Indonesia's embassy on Salcedo St. (Makati City) as the seat of the joint secretariat," the OPAPP official said.

Indonesian Ambassador Irzan Tandjung hosted a meeting on December 10 during which it was agreed to hold the new round of talks.

Indonesia chairs OIC's peace committee for Southern Philippines (PCSP) with Saudi Arabia, Libya, Senegal, Somalia, Bangladesh, Malaysia, Brunei, Egypt, Turkey and Pakistan as members.

Ambassador Sayyed Kassem El-Masry, OIC special envoy for the national government-MNLF peace process, will represent OIC Secretary General Ekmeleddin Ihsanuglo.

"The first meeting and the next ones are meant to craft the modalities for the FPA's review," the OPAPP official said. "We are going to meet in 'shifting venue' mode among the PCSP's members," said Tan.

A new attempt to finalize the peace process in the south of the Philippines began with a meeting in Jeddah, Saudi Arabia, on November 10-12. The Jeddah meeting, chaired by Indonesian Ambassador Rezlan I. Jenie and co-chaired by El-Masry, resulted in the creation of five working groups for the FPA review.

They will concentrate on shari'ah and judiciary; a special regional security force and the unified command for the Autonomous Region in Muslim Mindanao; natural resources and economic development issues; political system and representation; and education.

Syamsuddin Calls for Wider Cooperation with NU

Din Syamsuddin, chairman of the Muhammadiyah Muslim organization, called on Tuesday (18/12/07) for collaboration between his organization and the other major Muslim group, Nadhlatul Ulama (NU), *Republika* reported.

"Members of these two organizations can be an example. We can be the light which illuminates the community and the nation. This is already being done by Muhammadiyah and NU. So, it is imperative that these two organization work together to develop the life of the Muslim community to promote progress and excellence," said Syamsuddin.

Syamsuddin, speaking at a gathering before the Idul Adha festival, stressed that differences in their religious teachings ought not to weaken the harmony that exists between Muhammadiyah and NU.

He emphasized that Muhammadiyah and NU must continue to remember their identities as missionary and cultural movements.

REGIONS

Problems Emerging in Aceh, Says Tsunami Agency

Although more than 100,000 homes destroyed by the 2004 Indian Ocean tsunami have been rebuilt in Aceh and Nias, 3,000 families remain in temporary shelters, the head of the Aceh and Nias Rehabilitation and Reconstruction Agency (BRR) said on Wednesday (19/21/07), Reuters reported.

However, concerns continue to grow over what will happen in the regency when the BRR and many aid groups end operations in Aceh next year, he said.

Kuntoro Mangkusubroto, head of the BRR, said progress had been "very encouraging and better than planned three years ago" with more than 102,000 homes built and another 20,000 due to be completed by June next year.

Mangkusubroto, a former mining minister, said that the agency was now focused on handing over recovery efforts to the locals, but conceded that problems were emerging.

"This region has been in conflict for 30 years. We have to be realistic. For BRR, the priority is for the people to at least be able to continue maintaining and operating all these facilities," he said, referring to the rebuilt infrastructure.

The agency, whose mandate ends in April 2009, plans to get 3,000 families still in temporary wooden barracks surrounding the provincial capital Banda Aceh into new homes by next year.

Apart from houses, BRR has also coordinated and completed the reconstruction of about 2,000 km of roads, 800 schools, 600 hospitals and health centers, 17 seaports and 10 airstrips across the province by Nov 2007, he said.

Aceh Party Symbols 'Must Follow Law'

Pieter Feith, the former head of the international monitoring body that oversaw the peace process in Aceh province said Wednesday (19/12/07) that a political party's name, symbols and flag must conform to Indonesian law.

Feith's remarks came at a press conference after meeting with Vice President Jusuf Kalla following a three-day visit in Aceh province, Xinhua reported. Feith stressed that attributes must not be related with rebellion.

Jakarta and former rebels of the separatist Free Aceh Movement (GAM) have been in dispute over attempts to establish a local political party by former members of the group called the GAM Party.

"According to the (Indonesian political party draft) law, it is not allowed to create a political party that has the name of an insurgency like GAM. So they have to think of something different. Maybe the word 'damai' (peace), to make (clear there) is no doubt," said Feith.

"They (GAM) have to comply with the law of the country, which says that regional symbols, logos, flag names that have association with the separatism are not allowed," he said.

ECONOMY

Direct Investment at 40-Year High: BKPM

Direct investment hit a 40-year record high of Rp125.94 trillion (\$13.99 billion) in the first nine months of 2007, the Capital Investment Coordination Board (BKPM) Asia Pulse reported Wednesday (19/12/07).

The statement marked a high note for what for the business world was the effective end of 2007,

"Direct Investment this year is the highest since 1967 when the capital investment law was put into force," BKPM Chief M. Lutfi said Tuesday.

The figure represented a 169.02% rise compared to last year when it was Rp74.51 trillion (\$8.28 billion), he said, adding it is expected to grow by 15.2% in 2008 or faster than 12.54% as projected by the Finance Ministry.

Miranda Goeltom, Senior Deputy Governor at the central bank, was also upbeat on the investment prospects for 2008. She said investments totaling Rp1,165 trillion (\$123.5 billion) would be required to meet the economic growth target of more than 6%.

Banks would have bigger opportunities to finance investment, she noted. Meanwhile, a Bank Indonesia official said the bank would be introducing changes to regulations in March which would reduce administrative workloads in the banking sector, allowing banks to improve customer services and boost lending.

Goeltom also praised the performance of the banking sector, where she said the loan to deposit ratio was at 70%, while non-performing loans remained low.

She said economic growth in 2008 could be better than that in 2007 while inflation was expected to reach between 6.3% 6.5% by the end of this year.

In another major announcement to mark the end of the year, the president director of PT Medco Energi Internasional said the company would combine with Mitsubishi Corp. and state oil firm Pertamina to build an LNG plant in Sulawesi. No cost was put on the project.

Hilmi Panigoro said Medco would take a 20% stake in the LNG plant, while Mitsubishi would hold 51%

and Pertamina 29%.

In the export sector, non-oil and -gas exports are projected to grow 14-18% in 2008 from \$93 billion estimated for this year, the Trade Ministry said in a statement posted on its website, Thomson Financial reported.

The ministry said key non-oil and gas commodities such as coal, nickel, crude palm oil and rubber, which have underpinned export growth this year, will continue to be the main drivers of growth.

In the first ten months of this year, the country's non-oil and gas exports rose 17.3% to \$75.91 billion compared to the same period of last year, while oil and gas exports declined 1.2% to \$17.36 billion.

CPO was the biggest non-oil and gas commodity with an export value of \$7.78 billion in the first ten months, up from \$4.90 billion in the same period last year. The increase was supported by a sharp rise in CPO prices.

The Indonesian Stock Exchange ended the week with a slight lift, up 0.4% on the Wednesday before closing until after Christmas. The Jakarta composite index closed at 2,657.98.

The main index had retreated more than 5% from its all-time high of 2,810.96 set on December 11.

Shipping company PT Berlian Laju Tanker shares rose Rp125 to 2,600 after the company's shareholders approved the acquisition of US shipping company Chembulk Tankers LLC for \$850 million, a move that propels the company into the international arena as the third largest stainless steel chemical tanker operator in the world in terms of capacity and number of ships.

MACROECONOMY

Economy Seen Stable: BI

Indonesia's economic outlook for next year is stable, according to Made Sukada, director of Bank Indonesia's (BI) economic research unit on Monday (17/12/07), Agence France-Presse reported.

Strong domestic consumption and overseas demand for commodities were likely to push economic growth to between 6.2% and 6.8% in 2008, he said.

The government is targeting growth of 6.3% this year and forecasts that the economy will expand by 6.5 to 7.0% in 2008.

"We believe the high growth is quite feasible on an inflation rate of 5%, plus or minus 1% percent," Sukada told a panel discussion with journalists.

Recent political stability and strong performance by the local stock market had also created a more conducive environment for foreign investors, Sukada said.

INVESTMENT

Investment Hits 40-Year High

Investment hit a 40-year record high of Rp125.94 trillion (\$13.99 billion) in the first nine months of 2007, the Capital Investment Coordination Board (BKPM) said, Asia Pulse reported.

"Investment this year is the highest since 1967 when the capital investment law was put into force," BKPM Chief M. Lutfi said Tuesday (18/12/07).

The figure represented a 169.02% rise compared to last year when it was Rp74.51 trillion (\$8.28 billion), he said, adding it is expected to grow by 15.2% in 2008 or faster than the 12.54% projected by the finance ministry.

Investment in 2007 consisted of foreign investment worth Rp91.8 trillion (\$10.20 billion) and domestic investment worth Rp31.14 trillion (\$3.79 billion), he said.

Foreign investment jumped 170% from last year when it was Rp53.73 trillion (\$5.97 billion), while domestic investment climbed 164.29% from Rp20.78 trillion (\$2.30 billion) last year, he said.

"The 2007 investment figure is the result of the improved investment climate at home," he said.

He said paper, paper-related goods and plastic industries were the biggest recipient of domestic investment in 2007 with the funds sunk in those industries (8 projects) totaling Rp14.54 trillion.

The food industry came in second with Rp5.13 trillion invested in 24 projects, he said. In third place were base metal, machinery and electronic industries in which 17 projects absorbed a total of Rp3.54 trillion in funds, he said.

Meanwhile, the transportation, warehousing, and telecommunication sectors took the biggest amount of foreign investment with Rp29.61 trillion in 41 projects.

This was followed by base chemical, chemical goods and pharmaceutical industries where 32 projects absorbed a total of Rp14.49 trillion.

West Java topped the list of domestic investment destinations with a value of Rp11.26 trillion in 33 projects, followed by Jambi (Rp4.47 trillion in 2 projects), Jakarta (Rp4.19 trillion in 32 projects), Riau (Rp3.09 trillion in 11 projects), and Southeast Sulawesi (Rp2.76 trillion in 1 project).

Jakarta remained the most attractive destination to foreign investment with Rp41.94 trillion in 349 projects, followed by East Java (Rp15.2 trillion in 62 projects), West Java (Rp11.81 trillion in 240 projects), Riau (Rp6.51 trillion in 10 projects), and Banten (Rp5.81 trillion in 76 projects).

BI Expects Investment to Reach \$124B in 2008

Senior Deputy Governor of Bank Indonesia Miranda Goeltom said she expected investment to reach Rp1,165 trillion (\$124.6 billion) in 2008 to help meet economic growth target of over 6%, Asia Pulse reported Wednesday (19/12/07).

With this level of investment, banks have bigger opportunities to finance growth, she said at a magazine award ceremony.

"Currently, three fourths of investment is funded by banks," she said.

Conditions in the banking sector were good, she said, with increased loan distribution this year of 24.3%, and probably 25% by year end.

The debt ratio over savings now reached 70%, the highest since the economic crisis of 1998, while the non-performing-loan ratio (NPL) continued to drop, she said.

Inflation was expected to reach between 6.3-6.5% by the end of this year, still within the central bank's target.

East Java Council to Invite Toll Road Investors

The East Java legislative assembly (DPRD) is to resume inviting toll road investors to ensure the construction of toll roads in Surabaya, Antara reported Tuesday (18/12/07).

"In a previous meeting, the investors promised to pay 5% cent of the land clearance cost before December 13, as set by the Toll Road Management Agency (BPJT)," chairman of Commission D of the East Java DPRD Edy Wahyudi said.

Commission D asked the investors to start the construction work before the end of 2007, which they agreed to do.

STATE CONCERNS

Japan to Accept 1,000 Nurses: Report

Japan will accept 1,000 nurses and health care workers from Indonesia from as early as next year under a free trade pact to help ease the country's shortage, a report in the *Nikkei* business daily said Saturday (22/12/07).

The move will mark the first time Japan has brought in foreign nurses and care workers on a full-time basis, it said.

The signing of an economic partnership agreement has opened the way for lower tariffs for Indonesian exporters to Japan, as well as more liberal access to its labor market.

Under the agreement on caregivers, Japan will accept 200 licensed nurses and 300 certified care workers every year for the next two years, the newspaper said. If the program is well received, the figures may be increased for the third year.

Nurses will be limited to staying for three years and care workers for four years on their Indonesian certificates and licenses but can extend their stay by passing Japanese nursing exams or receiving Japanese caregiver's certificates.

The economic pact, signed in August, has already been approved in Indonesia, while Japan's government submitted the measure to the legislature earlier this month with an eye to approval in the current Diet session or early next year.

The Japanese health ministry estimates the nation needs 40,000 more nurses, while the shortage is estimated to reach 450,000 to 550,000 by 2014, the *Nikkei* said.

2007 Fishery Exports Rise in Value

The value of fishery exports in 2007 increased to \$2.3 billion from \$2.1 billion in 2006 and the government has set a target for next year of \$2.5 billion,

By quantity, exports dropped in volume in 2007, said Martani Husaini, Director General for Processing and Marketing at the Marine Resources and Fisheries Ministry, *Asia Pulse* reported on Wednesday (19/12/07).

He blamed higher fuel costs for the decline in hauls from fishing and pond breeding of species such as shrimp and grouper.

Exports in 2006 stood at 926,478 tons, dropping to 480,281 tons in 2007.

SOEs

Govt. Approves Adhi Karya Rights Issue: Report

The government has approved the plan of state-owned construction firm PT Adhi Karya to launch a rights

issue and will propose it to the House of Representatives in early 2008, according to Detikfinance.com on Wednesday (19/12/07).

"The government's privatization committee has agreed on the plan, and we will determine the time of the rights issue after the House approves the plan," State Minister for State Enterprises Sofyan Djalil was quoted as saying.

The government, as the controlling stakeholder, was still considering whether it would use its rights to buy the shares.

"We can't tell you now, but the point is that we have agreed on Adhi Karya's rights issue so that the company can further develop its business," Djalil said.

Adhi Karya president director Saiful Imam has said the company was planning to raise around Rp600 billion (\$63 million).

"The rights share may account for 15% to 20% of the company's total shares," he said. "But the number of the rights shares to be issued may be lower than that if the price is high."

The company is expecting to increase its net profit by 41.7% from an estimated Rp120.1 billion this year to Rp170.2 billion in 2008.

Telkom Acquires 80% of Sigma Shares

State-owned telecommunications operator PT Telkom through its subsidiary PT Multimedia Nusantara (Metra) has acquired 80% of PT Sigma Cipta Caraka (Sigma) shares in order to reinforce the position of Telkom Group in the Indonesian information technology market, Asia Pulse reported Wednesday (19/12/07).

PT Telkom said in a statement that the two sides had signed a conditional purchase and sale agreement (CSPA) on the acquisition of sigma's stake.

"This agreement will enable Telkom Group to move faster in expanding its information technology business to become a world-rated enterprise in the software and data recovery center business. This transaction must provide benefit for clients and shareholders," president director of PT Telkom Rinaldi Firmansyah said.

The president of Sigma's Board of Commissioners, Toto Sugiri, said the acquisition would create synergy as both firms had different skills.

With 20 years of experience in the information technology sector, Sigma provides services to the banking sector such as the development of software, networking and integration systems, resources management and internet access.

Sigma has 700 workers and 170 clients in the financial, telecommunications, distribution and industrial sectors.

PRIVATE SECTOR

Motorcycle Sales Up 7.8% Year-on-Year

Motorcycle sales were up 7.8% for the first 11 months of the year compared to the same period of last year, data from the Indonesian Motorcycle Industry Association showed on Monday (17/12/07), Agence France-Presse reported.

Nationwide sales in Indonesia, the world's third largest motorcycle market after China and India, reached 4.29 million for January to November, compared to 3.98 million a year ago, the association said.

Domestic motorcycle sales reached 486,977 in November, up 15.3% from 422,390 in October, when sales dipped due to reduced working days resulting from a lengthy holiday.

The November figure was the highest since December last year, but was lower compared to sales of 524,067 in November 2006.

Total investment of \$250 million is expected in the industry next year on continued optimism over the market, Asia Pulse reported on Tuesday.

Yamaha, the second market leader, plans to increase investment by \$40 million while newcomer TVS Motor from India is to spend \$57 million for capacity expansion.

The motorcycle producers are confident the market will expand by a further 10-11% next year after a strong revival this year from a slump in 2006, an official from the industry ministry said.

This year sales are forecast to reach 4.6 million units up from 3.19 million units in 2006 and next year the figure is predicted to scale up further to a new peak of 5.2 million units.

Land Transport Director General Budi Darmadi said capacity is expected to expand by as much as 1 million units to 6.5 million units in 2008.

Berlian Cleared for \$850M Acquisition

PT Berlian Laju Tanker has received the go ahead from shareholders to acquire US-based Chembulk Tankers LCC, its president said on Tuesday (18/12/07), Reuters reported.

President director Widiharja Tanudjaja said the company would finance the acquisition through \$750 million in loans from a consortium of foreign banks, while the rest would come from internal cash.

Tanudjaja said four international banks -- Fortis Bank, DnB NOR, ING and Nordic NIB -- were in the financing consortium.

Currently, Berlian has 65 ships with a total capacity of 1.87 million dead weight ton (DWT). After the purchase its fleet will grow to around 80 vessels with a capacity of 2.27 million DWT.

Berlian has also said it aims to raise up to \$350 million via asset sales and a convertible bond or equity issue to repay debt linked to the acquisition.

Internet Service Industry to Grow 40% in 2008

The country's internet service industry is predicted to grow 40% next year following a 50% cut in tariff by bandwidth providers, Asia Pulse reported Wednesday (19/12/07).

Chairperson of the association of internet service providers (APJII) Sylvia Efi Widyantari Sumarlin said the change in the tariff structure by bandwidth providers will boost the internet service industry.

Sumarlin predicted that the number of users will grow 25% to 32 million next year from an estimated 25 million this year.

Next year a number of bandwidth providers have decided to cut their tariff to \$1,000 per Mbps from the current level of \$2,000, she said.

Hero to Spend Rp200B on Expansion

Retailer PT Hero Supermarket will spend Rp200 billion next year to open 10 to 20 new supermarkets in the country, company president Ipung Kurnia said Tuesday (18/12/07), Thomson Financial reported.

The company will also rebrand 10 to 20 "Hero" supermarkets into "Giant" supermarkets, he said. Since the beginning of this year, Hero has changed the name of 13 "Hero" supermarkets to "Giant" supermarkets.

Hero brand supermarkets will serve the middle- to higher-end market segments while Giant supermarkets will focus on the mid- to lower-end market segments.

"As a consequence, revenue contribution from Hero supermarkets could be lower but with higher margins, while Giant supermarkets will contribute higher sales but with lower margins," Kurnia told reporters.

PT Hero Supermarket is 44.5%-owned by Mulgrave BV and 50.1% by PT Hero Pusaka Sejati, with 5.4% held by the public.

Carrefour Expects Early Closure on Alfa Stake

PT Carrefour Indonesia, a unit of France's Carrefour, said Wednesday (19/12/07) it expects negotiations for the purchase of a majority stake in retailer PT Alfa Retailindo to be completed shortly, Thomson Financial reported Wednesday (19/12/07).

"We have just signed a memorandum of understanding for the stake purchase. We hope an agreement can be reached over the next few days," corporate affairs director Irawan Kadarman said.

The company said it was planning to acquire a 75% stake in PT Alfa Retailindo from key Alfa shareholders PT Sigmantara Alfindo and Prime Horizon Pte Ltd. Alfa Retailindo operates smaller supermarkets.

Kadarman declined to comment on how much Carrefour was offering for the stakes.

Prime Horizon is an investment company jointly owned by Citigroup Financial Products Inc, CIMB Group Sdn Bhd and the Government of Singapore Investment Corp (Ventures) Pte Ltd through its wholly owned unit Archipelago Investment Pte Ltd.

Prime Horizon bought Alfa Retailindo shares from cigarette maker HM Sampoerna and Sigmantara Alfindo in September last year.

Life Insurance Premium Revenue Up 70%

The Indonesian Life Insurance Association (AAJI) recorded a 70% increase in total premium income for the country's insurance companies to Rp32.4 trillion (about \$3.4 billion) during the first nine months of the year from Rp18.9 trillion in the same period last year, *The Jakarta Post* reported Monday (17/12/07).

General affairs director Evelina F. said total premium income was expected to reach Rp40 trillion this year.

"All in all, the significant growth in the life insurance business resulted from people's growing awareness about the importance of life insurance, improved macroeconomic conditions, the creative and innovative products, and the improvement in the sales distribution system," AAJI executive director Edy KA. Berutu said.

Berutu explained that the industry saw 49% growth in total investment, rising to Rp81.4 trillion in the first nine months from Rp54.6 trillion in the same period last year.

The association's figures were based on reports from 39 life insurance companies, consisting of one state-owned company, 23 private firms and 15 joint ventures.

BANKS

BI to Simplify Procedures on Minority Stakes

Bank Indonesia (BI) said Wednesday (19/12/07) it will issue changes to regulations that aim to relieve the administrative burden on banks and allow them to concentrate on expanding business, *Kompas* reported.

The changes and additions would be made in March through BI's Regulation No. 2/27/2000 regarding public banks, said I Gde Made Sadguna, deputy director at the central bank's directorate for research and banking regulation.

The fit and proper test would be dropped for purchasers of minority stakes in bank, rather than the current requirement for the test to be performed on any purchaser of 5% or more of stock in a bank.

"Approval from the central bank will no longer be needed if the stake purchase does not result in holding a controlling stake. Banks will only be required to report (such a purchase) to the central bank," he said.

Like changes in personnel below the level of director, the purchase would only have to be reported to the central bank, not approved by it, Sadguna said. Changes to branch networks would also be reported to, not approved by the central bank.

BI will also spell out the prerequisites and procedures for a bank that is planning to undergo self-liquidation. Indonesia currently has no rulings on such procedures.

The regulations would also ban out-sourcing in core banking operations, but permit it in non-core activities.

Sadguna said it was hoped the changes would remove inefficiencies in bank regulations and allow the sector to provide better services to customers and expand their lending base.

Govt. May Set Up Holding Company for State Banks

The government may set up a holding company for state banks to conform with Bank Indonesia's single presence policy, State Enterprises Minister Sofyan Djalil said Wednesday (19/12/07), Thomson Financial reported.

"We have submitted a proposal (to Bank Indonesia). The possibility is to set up a holding company," he said.

The central bank set an end-2007 deadline for affected bank owners to decide on how they would comply with the rule. Owners of more than one bank have three choices: a holding company, a merger, or sale for second and subsequent bank holdings.

The government still controls three listed state banks -- PT Bank Mandiri, PT Bank Rakyat Indonesia and PT Bank Negara Indonesia. They are the first, third and fourth largest banks in the country. The state also owns non-listed banks PT Bank Tabungan Negara and PT Bank Ekspor Indonesia.

Other bank owners affected by the rule include Singapore government investment arm Temasek Holdings, which controls PT Bank Internasional Indonesia and PT Bank Danamon; and Malaysia's state investment agency Khazanah Nasional Bhd, which has stakes in PT Bank Niaga and PT Bank Lippo.

Temasek has decided that it prefers to merge the two Indonesian banks that it controls.

Khazanah has yet to announce its decision. Bank Indonesia director Halim Alamsyah said he understands that Khazanah has submitted a proposal, but he declined to give more details.

POWER

Agreement Signed for Sarulla Geothermal Project

Ormat Technologies, Inc. announced on Tuesday (18/12/07) that the Medco-Ormat-Itochu consortium completed project documents for the 340 MW Sarulla geothermal project in North Sumatra.

A statement from Ormat said the consortium consists of Medco Energi Internasional; Ormat International Inc., a subsidiary of Ormat Technologies, Inc. ("Ormat"); and the Itochu Corporation. The statement did not mention the division of shares between the companies but Ormat's equity participation will initially be 25%, and may be reduced to not less than 12.75%.

The consortium signed an Amendment to the Joint Operating Contract (JOC) with PT Pertamina Geothermal Energy (PGE), a wholly owned subsidiary of state-owned oil and gas company PT Pertamina.

Together with PGE, the consortium then signed another agreement with state power utility PT PLN.

The project, located in Tapanuli Utara of North Sumatra, represents the largest single-contract geothermal power project to date, and is a reflection of the large scale, high productivity and potential of Indonesian geothermal resources, the statement said.

The project is to be constructed in three phases, consisting of Ormat-designed and -supplied power generating units of 110 to 120 MW each over the next five years.

The total project cost is expected to be approximately \$800 million, and it is expected that the Japan Bank for International Corporation (JBIC) will provide the majority of project financing.

PLN, Ashmore in Geothermal Talks

State power utility PT Perusahaan Listrik Negara (PLN), and Ashmore Energy International (AEI) may develop geothermal power projects worth billions of dollars to generate 2,000 MW of power, a PLN official said on Monday (17/12/07), Reuters reported.

Dotted with hundreds of active and extinct volcanoes, Indonesia has the potential to produce an estimated 27,000 MW of electricity from geothermal sources. However, the vast potential remains largely untapped because of the high cost of geothermal energy.

"We are still in talks with Ashmore. We are considering setting up a joint venture for about 2,000 MW," Udibowo Ciptomulyono, a PLN official for primary energy, told Reuters.

Houston-based AEI owns and operates infrastructure assets in emerging markets globally.

OIL & GAS

Pertamina, Medco, Mitsubishi to Build LNG Plant

Mitsubishi Corp. has agreed on a joint venture with state oil firm Pertamina and PT Medco Energi Internasional Tbk to build an LNG plant in Sulawesi, a Medco official said on Wednesday (19/12/07), Reuters reported.

Hilmi Panigoro, president director of Medco, said it would take a 20% stake in the LNG plant, while Mitsubishi would hold 51% and Pertamina 29%.

He did not elaborate on the cost of building the plant. Panigoro said he expected the plant to come onstream in 2011.

A Pertamina official, who declined to be named, said the plant would receive natural gas from the Matindok field, operated by the state oil firm, and Medco's Senoro field.

The official said the fields have combined reserves of around 2 trillion cubic feet of gas. He added the plant would have an annual capacity of around 2 million tons of LNG.

The country is estimated to have gas reserves of around 182 trillion cubic feet.

Medco E&P to Invest \$530M in 2008

PT Medco E&P Indonesia said it will spend \$530 million in new investment in 2008, up from \$400 million in 2007, Asia Pulse reported Wednesday (19/12/07).

However, the company's production target will remain the same at 71,000 barrels of oil equivalent per day, despite the additional investment, said its president, Lukman Mahfoedz.

"The fund will be used to support explorations, including the provision of drilling facilities. Therefore, production would not be expected to increase in 2008," said Mahfoedz.

He said the subsidiary of publicly listed energy company PT Medco Energi Internasional will start development of gas reserves including Block A in Aceh, the Lematang Block and the Senoro Toili Block in Sulawesi in 2008.

MINING

PT Timah Invests \$50M in Downstream

The management of state tin company PT. Timah is investing \$50 million in the production of downstream products including tin for the chemical industry, food industry, pharmaceutical industries, and others, Antara reported Thursday (13/12/07).

"We have teamed up with China in the establishment of downstream industries. Actually PT Timah has no technology for the production of downstream products which are highly competitive on the world market, while it has large stocks of tin bars," president of PT. Timah Wachid Usman said.

Production of the products for downstream industries is expected to commence early in 2009. At the moment, downstream sales make up only 5% of PT Timah's revenue.

The downstream products include tin balls, tin shots, tin anodes, lead free solders, and Bangka four nine (tin with a purity of more than 99%).

Usman also said PT Timah planned to spend Rp800 billion (\$85 million) to buy new dredges and plants in 2008.

"Regarding financing, we would prefer to get loans from banks, although we might also provide some funds from internal cash," he said.

Krishna Syarif, Timah's finance director, said earlier that the firm expected to produce 57,000 tons of refined tin this year.

In January-September 2007, Timah produced 46,925 tons of refined tin, up 49% from 31,530 tons in the same period a year ago.

Proven Coal Reserves at 5.3B Tons

The Energy and Mineral Resources Ministry said Indonesia has proven coal reserves of 5.3 billion tons, mostly in Kalimantan, Asia Pulse reported Tuesday (18/12/07).

Kalimantan has proven deposits of 4.39 billion tons, while the rest is in Sumatra, said chief spokesman of the geology agency, Calvin KK Gurusinga.

The deposit estimate is based on explorations reaching a depth of 100 meters underground, Gurusinga said, adding that the reserve, therefore, could be larger if there was more coal deeper than the levels already explored.

With annual production of 200 million tons a year the reserves will be depleted in 26.5 years, but based on probable deposits of 13.4 billion tons the reserves will last for 67 years, he said.

Sumatra has most of the probable deposits of 12.9 billion tons and Kalimantan has only 413.4 million tons.

Oxiana Approves \$310M Gold Mine Development

Australian copper and gold miner Oxiana Ltd has approved the \$310 million development of the Martabe gold and silver mine in North Sumatra, Asia Pulse reported Wednesday (19/12/07).

Oxiana is expected to initially produce about 200,000 ounces of gold and 200,000 ounces of silver from the project over a nine-year life.

The company expects that construction of the process plant will start in July 2008 with commissioning of the mine scheduled for December 2009.

Oxiana picked up the former Newmont Mining Corp asset after it acquired junior gold miner Agincourt Resources Ltd through a A\$415 million takeover in May.

The company said Martabe "not only adds to Oxiana's production pipeline but establishes a significant presence for Oxiana in Indonesia, one of the world's most mineralized and highly prospective domains".

PT Inco Revises Up '07 Nickel Matte Output

PT International Nickel, or Inco, said Monday (17/12/07) its nickel output for this year may reach 170 million pounds, which would exceed its all-time record of 168 million pounds set in 2005, Dow Jones reported.

The company had been optimistic about meeting its initial forecast of 165 million pounds in 2007, despite an 11-day strike last month by its workers which resulted in lost output of 5 million pounds.

Inco's revised 2007 forecast, however, means the company would not only recoup the losses in output from the strike but would also increase its on-year output by almost 8%.

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