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REPUBLIC OF INDONESIA

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Trade and Investment News¹, 29 October 2007

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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*

POLITICS

Palestine Capacity Building Move

President Susilo Bambang Yudhoyono said Monday (22/10/07) that Indonesia, along with South Africa and other Asian countries, will arrange a conference for Palestinian capacity-building in line with peace negotiations set for November or December in Annapolis, Maryland.

The conference will be held in concert with another initiative from European Union countries to provide development assistance for Palestine.

Visiting Palestine President Mahmoud Abbas said Indonesia will be invited to the forthcoming peace talks as a major Muslim nation, along with Malaysia and Turkey, representatives of Arab nations, permanent members of the United Nations Security Council, and the G8 countries.

Dr. Yudhoyono discussed with President Abbas the importance of several core issues at the peace talks, including the status of East Jerusalem, the border between the two states, Israeli settlements in the West Bank and the right of return for Palestinian refugees, *The Jakarta Post* reported.

Hasyim Muzadi, the chairman of the influential Muslim organization Nahdlatul Ulama (NU), said he believed that there is a chance for both Abbas' Fatah group and the rival Hamas to find common ground, adding that NU, Muhammadiyah and other religious organizations stood ready to help bring unity to the Palestinian people.

"We will talk with Palestinian ambassador here to find concrete ways to mediate the talk between both parties," he said.

Abbas also visited Malaysia and Brunei as part of a tour aimed at promoting a meeting aimed at achieving a settlement to be held in the US next month.

Religious leaders, including Muslim, Christian, Buddhist and Hindu scholars, called on Abbas to reconcile with Hamas to strengthen the nation's fight for independence.

Envoy Meets Myanmar Generals

President Susilo Bambang Yudhoyono's special envoy, retired Gen. Agus Widjono, met with several influential Myanmar generals during his visit last week to attend the funeral of Prime Minister Soe Win, *The Jakarta Post* disclosed on Tuesday (23/10/07).

Widjono acknowledged meeting with acting Prime Minister Lt. Gen. Thein Sein, ranked No 5 in the Myanmar military hierarchy, and the junta's liaison officer to opposition leader Aung San Suu Kyi, Maj. Gen. Aung Kyi, who briefed him and Foreign Ministry director for East Asian and Pacific affairs Yuri Thamrin on what steps were being taken to continue the democratization process.

"Beside attending the funeral, we wanted to assess the condition of Myanmar so that we know what we can do next," he told the *Post* on Monday.

Asked whether Indonesia would continue offering assistance to the junta on military reform and the transition to a civilian government, Widjono said that point had not yet been reached. "It needs trust from the military junta. That's what we are trying to build, and that's why I was sent there," he added.

President Susilo Bambang Yudhoyono sent the reform-minded general to Yangon on October 20, a day after Soe Win died after a long bout with leukemia.

Yudhoyono is keen to help the junta to press on with its so-called road-map to democracy, which would gradually transform Myanmar into a civilian-ruled state by using Indonesia's experiences.

UN 'Must Share Blame' for E. Timor: General

The UN and Portugal must share responsibility for violence that marred East Timor's 1999 vote for independence, a former general told a truth commission investigating the bloodshed on Wednesday (24/10/07), Australian Associated Press reported.

Kiki Syahnakri was appointed commander of the Indonesian military in East Timor in September 1999 after pro-Jakarta militiamen went on a violent rampage in the wake of the independence vote.

Syahnakri told the Commission of Truth and Friendship (CTF), set up by East Timor and Indonesia to delve into the violence, that the UN had conspired to sway the vote in favor of independence and should share the blame for the mayhem.

"Indonesia can't, and does not deserve to be, entirely held responsible for the riots, because Portugal, elements in the international community and the UN played some role in bringing about the riots," he told the commission's final hearings in Jakarta.

Syahnakri said international pressure on the Indonesian military is "unreasonable". "Since the beginning, the UN and elements in the international community had an agenda for an independent East Timor and were not interested in a fair and impartial vote," he said.

REGIONS

Aceh Rebuilding Nearly Complete: Officials

The multi-billion dollar reconstruction of Aceh after the devastating 2004 Indian Ocean tsunami is nearing completion but survivors still face challenges, Agence France-Presse quoted officials as saying on Friday (26/10/07).

The Rehabilitation and Reconstruction Agency for Aceh-Nias (BRR) overseeing reconstruction of the province said just over 100,000 houses have been rebuilt, still short of a 120,000 target set following the tragedy.

Half of the 3,000 km of destroyed roads have been rebuilt, 332 of 450 village offices have been reconstructed, seven airports have been upgraded and three new ones completed.

However, decent housing remains a massive concern for the local population. "There will be no more housing projects or housing construction beyond April 2008, except one or two organizations," the agency's head, Kuntoro Mangkusubroto, said at the launch of a key report on BRR activities.

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

Some of the houses are unoccupied or of poor quality, while others still lack essential items such as drainage or electricity, he said, without providing figures.

Up to 4,000 families who were renting homes before the tsunami remain in temporary shelters as land has had to be found for their new homes. They are expected to be shifted by April next year, Mangkusubroto said.

Land title registration however has lagged, with just 114,000 titles distributed out of a targeted 600,000. "But 114,000 is a big deal," Mangkusubroto said. "We have problems here and there because of the geography and slow administration process."

Other snags include the fact that some 390 km of electricity transmission grid has been installed, but there is no power to supply them.

The BRR's mandate ends in April 2009 and its focus has shifted towards handing the projects back to governments -- in Jakarta, provincial capital Banda Aceh and local districts, Mangkusubroto said. "That is what we are now doing: training people, institutional development," he said.

ECONOMY

Indonesia Pushes for Deal on Carbon

The Indonesian government is leading a bid to form a developing-world lobby to pressure richer nations to provide assistance to reduce carbon emissions, the *International Herald Tribune* reported.

President Susilo Bambang Yudhoyono made a plea to the rich nations at Bogor in West Java on Wednesday (24/10/07) at the start of a gathering of 40 environment ministers, a precursor to the United Nations Climate Change Conference to be held in Bali in December.

At the meeting, Indonesia began mobilizing developing countries like Brazil, Mexico, Congo, Cameroon, Costa Rica, Malaysia and Papua New Guinea, to push for generous terms.

The *Tribune* said Jakarta has in the last few months repeatedly demanded that wealthy nations foot the bill for developing nations to preserve their forests, mainly through incentives like carbon credits.

Environment minister Rachmat Witoelar said earlier this month that he wanted rich countries to pay as much as \$20 a hectare for it to preserve its dwindling forests.

The Bali conference is expected to produce a new agreement to follow on from the Kyoto Protocol, which expires in 2012.

On the home front, Coordinating Minister for Economic Affairs Boediono said much more work remained to be done and that there had been little significant development in the economy in the past three years.

"We have worked hard to reach our national economic goals but we still have a long way to go," he told reporters on Monday, according to Antara.

"We have done what we had to do in the context of global and national economy but the results have yet to be promising," Boediono admitted.

He said complicated licensing processes continued to slow investment. Nevertheless, he said, the government was optimistic that economic growth would reach 6.3% this year and move to growth of between 6.5% and 6.8% next year.

Higher international oil prices would have a negative effect by boosting spending on fuel subsidies, he said, adding that "in terms of its impact on our economy, there are some positive impacts such as on the prices of exports of commodities and minerals," Reuters reported him as saying.

Bank Indonesia Governor Burhanuddin Abdullah said separately that the GDP growth target of 6.3% this year is attainable despite the threat of a slowing US economy, Thomson Financial reported.

President Yudhoyono, speaking on Tuesday, said Indonesia is taking steps to protect the economy from a moderate global slowdown expected in the coming months, Dow Jones Newswires reported.

"We are taking anticipatory steps in conjunction with other bodies so that the global economic downturn doesn't affect our economy - the global economic downturn can affect our economic growth and inflation," he told the opening of a trade fair in Jakarta.

Dr. Yudhoyono said that to prevent a domestic downturn, "we need to attract the right investors, and make our exports more competitive."

In a move expected to boost prospects of the already buoyant electronics sector, the government said it would scrap luxury sales tax on 11 types of electronic goods and reduce the tax on others.

Prospects for more gas output at the Tangguh gas project emerged, with consortium leader BP Plc stating that it was considering constructing more processing units.

"We have determined a site that can be used for up to eight trains," Tangguh project executive vice president David Clarkson told journalists.

BUSINESS BRIEFS

MACROECONOMY

October Inflation Seen Easing - Minister

Annual inflation is likely to ease in October compared to September, chief economics minister Boediono said on Wednesday (24/10/07), adding he hoped prices would ease further in the following months, Reuters reported.

"It will be lower. I think so," Boediono said when asked whether annual inflation would ease in October compared to September. "We still hope prices will ease after Idul Fitri, compared with the figure last month which was higher than expected. I hope it will be better in November and December."

Annual inflation in September rose to 6.95%, the highest pace in a year, compared with a 6.51% gain in August.

Commodity Exports to be Boosted - Report

Indonesia will boost exports of plantation and mining commodities to ensure stable economic growth should soaring crude oil prices prompt a global economic slowdown, according to a report in *Bisnis Indonesia* Thursday (25/10/07).

Exports related to mining and plantation industries would act as a "trump card" for Indonesia in the event of a global economic slowdown, the business daily quoted Coordinating Minister for Economic Affairs Boediono as saying.

"When the global economy is slowing down, demand for exports will be affected. We will evaluate which exports are still going strong (in such an event)... In my opinion, we still have many strong export commodities, such as oil palm, rubber and mining products," Boediono said.

'New Era' for Exports - Minister

The country is set to enter the "next stage" of its export recovery, 10 years after the 1997 Asian financial crisis, Trade Minister Mari Pangestu said.

In an interview with Agence France-Presse last week as a major trade fair was launched aiming to lure cashed-up buyers from abroad, Pangestu said the government is now focusing on seeking to boost non-commodity exports.

"My first priority (has) been to get us back to the level before the crisis and I think we've achieved that in terms of market share, in terms of the growth rate," she said.

"The next stage: ... we have to ensure manufacturing exports will continue to increase. If you look at the numbers, actually the growth rate in the manufacturing sector in general hasn't been high," she said, referring to an annual growth rate of 5% to 10% in recent years.

Pangestu said strong demand for Indonesian commodities had driven its exports past the milestone of \$100 billion a year. However, growth has been far slacker in non-commodity exports.

The result has been impressive growth in industries that employ few people, but far less in those with the potential to provide jobs to the growing population of unemployed.

"We haven't seen the growth that we would have liked in the labor-intensive industries," Pangestu said, conceding that this was crucial to reducing poverty in the country.

While there were some exceptions to the country's lackluster export performance -- such as in consumer electronics -- exports such as textiles and footwear "haven't really grown as much as we would have liked".

Pangestu said Indonesia would try to improve the position of its manufacturing sector by attracting investment and pursuing labor reform. She said the country had already been successful in its investment push but would not revise its labor laws "in the near future".

The minister said Indonesia would nevertheless attempt to tackle investor fears of high labor costs by introducing a system of retrenchment insurance for employers. "The main issue companies complain about is the high cost of retrenchment compared to other countries," she said.

Figures from the Trade Department show total exports, including oil and gas, reached \$73.35 billion between January and August this year, a 13.35% jump on the same period a year ago.

Growth in non-oil and gas exports increased by 19% to \$59.91 billion from the same period in 2006.

Pangestu said Indonesia would aim for overall export growth of between 11% and 13% over the next two to three years.

BI Auctions Rp143t in 28-Day Bills

Bank Indonesia (BI) sold a record amount of 28-day bills during Wednesday's (24/10/07) auction, after selling none the previous week.

The central bank sold Rp143 trillion (\$16 billion) in one-month bills at 8.25%, accepting all bids. The previous week, it skipped its weekly auction ahead of the Idul Fitri Islamic holiday, which fell on October 13.

The amount auctioned on Wednesday was the biggest since the bank started selling the bills in July 1998, surpassing the Rp134 trillion in one-month bills sold on November 29 last year, according to data compiled by Bloomberg.

The central bank kept its benchmark interest rate, used as a reference for bill sales, unchanged at 8.25% for a third month on October 8 on concern accelerating inflation may top this year's 5% to 7% target range.

Govt. Aims to Raise Rp3t from T-bond Sales

The government plans to raise Rp3 trillion (\$329 million) from an auction of treasury bonds this week, part of efforts to plug the state budget deficit, Reuters reported.

The Finance Department said in a statement Tuesday (23/10/07) the government plans to sell a reopened 21-year bond coded FR0047 and a reopened 11-year bond coded FR0048 on October 30.

The country expects to rely more on domestic financing, such as by selling bonds in the domestic market, and less on foreign loans to help plug the budget deficit forecast at 1.5% of gross domestic product (GDP) this year.

Rupiah bonds have attracted strong demand in recent months due to lower domestic interest rates. The benchmark one-month interest rate, also known as the BI rate, is at 8.25%.

INVESTMENT

HK Company to Buy Forestry Firm for \$185m

Hong Kong's Tradeeasy Holdings Ltd said it has agreed to acquire 100% equity interest of Indonesian company Merdeka Timber Group Ltd (MTG) for \$185 million.

Some \$7.5 million of the consideration will be set off against the repayment of the MTG loan; \$28.3 million will be payable in cash; and the remaining HK\$1.217 billion will be settled by issuing convertible bonds with a term of three years, Hong Kong's Economic Times Net News reported on Wednesday (24/10/07).

MTG is involved in logging, land clearing, oil palm plantations, palm oil production, operation of sawmills, and production and export of sawn timber and other wood products in Papua province.

Bridgestone to Expand Plant

Japan's Bridgestone will invest more than \$11 billion over five years, including in Indonesia, to boost production as it vies with France's Michelin for the title of the world's top tire-maker, a report said recently.

The Japanese group plans to spend \$11.2 billion for five years from April 2008, up 20% from the preceding five years, the *Nikkei* daily said.

The group's capital spending will increase as it puts new factories into operation in Mexico, Poland and Hungary during the five-year period while expanding existing plants in India and Indonesia, it said.

In August, Bridgestone announced it would invest nearly \$200 million to expand tire factories in India, where more motorists are taking to the road, and into a production hub in Indonesia.

Pinnacle Wants to Buy Toba Pulp

Foreign investment company Pinnacle Company Ltd wants to wholly acquire Indonesian pulp maker PT Toba Pulp Lestari, proposing a price of Rp16.32 trillion (\$1.8 billion), a report said.

The price will include payment for shares held by the investing public, legal consultant of the Seychelles-based company Ery Yunasri told the *Investor Daily*.

Pinnacle has submitted its offer to the management of Toba Pulp, which is located in the village of Sosor Godang, Toba Samosir, North Sumatra, Yunasri said.

The company has an annual production capacity of 190,000 tons of dissolving pulp and paper pulp.

Toba Pulp is 31.67% owned by Mauritius-based Stearn Capital Ltd, 16.46% by Gold Forest Holding Ltd and other minor shareholders, including 3.86% by the investing public.

AGU to Build More Palm Oil Factories

PT Antang Ganda Utama (AGU) PIR Butong plans to build more processing factories to produce crude palm oil and palm kernel oil in its plantation area in North Barito reGENCY, Central Kalimantan province, Antara reported on Monday (22/10/07).

The new factories will expand the company's processing capacity of fresh fruit bunches of oil palm from 40 tons to 60 tons an hour.

The new factories are needed to process growing production of fresh fruit bunches with the expansion of oil palm plantations, company director for operations Adhita Laksamana Hartono said.

AGU, a subsidiary of cigarette giant PT Gudang Garam Kediri in East Java, came on line in 1990. It now has 18,087 hectares of oil palm plantation, including 3,600 hectares built for plasma farmers, who will sell their fresh fruit production to the company under contract.

STATE CONCERNS

Govt. to Scrap Electronics Luxury Sales Tax

The government has decided to abolish the luxury sales tax on 11 electronic products next month, an official said.

The decision came after a tariff team of the Finance Department and the Industry Department reached an agreement on tariff synchronization, Transport Equipment Industry Director General Budhi Dharmadi, said, according to an Antara report on Tuesday (23/10/07).

The luxury sales tax for some products will also be reduced, said Dharmadi.

Sales of electronic products in the country have continued to increase this year with 12 types of household electronic goods growing 12% in sales on average in the first nine months of the year, compared to the same period last year.

The highest increase in sales was recorded for air conditioners up 38% to 702,497 units, followed by washing machines up 29.34% to 676,421 units.

Coffee Exports Up in September

Indonesia exported 22% more beans from its main producing areas in September than in the previous month after harvesting picked up.

"The harvest has reached its peak," Suherman Harsono, chairman of the Lampung chapter of the Indonesian Coffee Exporters Association, told Bloomberg News on Wednesday (24/10/07).

Exports from Lampung, Bengkulu and South Sumatra surged to 29,816 metric tons in September, from 24,445 tons in August, he said.

The three provinces account for about 80% of the nation's output of the beans, shipped through Panjang port in Lampung.

The value of exports from this area rose 22% to \$49.96 million from \$41.1 million in August, and compares with \$25.15 million in the same month last year, Harsono said.

Coffee exports in the first nine months fell 37% from the same period last year, to 117,887 tons from 188,015 tons, Harsono said. The sales value dropped to \$193.09 million from \$209.15 million in the same period in 2006.

The country's coffee output may fall 20% this year from about 500,000 tons in 2006, Rachim Kartabrata, the association's executive secretary, said July 6. Drought affected flowering, which hurt bean size and quality, and also delayed the harvest.

SOES

Semen Gresik Expects 9-Month Growth of 10%

PT Semen Gresik expects its net profit for the first nine months of the year to have risen by more than 10% from Rp394.15 billion last year, *Bisnis Indonesia* reported Thursday (25/10/07), citing a company executive.

"We managed to rein in sales costs at Rp310,000 per ton although there was an increase in coal prices and pressures from inflation, company vice president director Rudiantara said.

He said the company managed to limit transportation costs as well.

PPA to Sell Texmaco's Assets Before Year-End

State-owned asset management company PT PPA will soon sell the assets of the Texmaco Group as a package deal.

The government took over Texmaco's assets in compensation for its huge debt after the economic crisis.

The company's textile and engineering division will be offered in a package before the end of the year, PPA president Mohammad Syahrial said, according to an Antara report on Tuesday (23/10/07).

Texmaco has other divisions, such as the financial and automotive divisions. "If an investor is interested only in one division, it is required to find a partner interested in the other divisions," Syahrial said.

He said the winner of the tender would be announced early next year.

PRIVATE SECTOR

Future for Creative Industries: Minister

Indonesia wants to more than double the creative industries' contribution to the national economy in the next few years through aggressive development of the country's rich, but largely untapped, artistic traditions and cultural heritage.

Trade Minister Mari Pangestu said the creative industries contribute about 4.75% of Indonesia's \$400 billion gross domestic product.

"I think we should be able to get it up to 10%," she was quoted as saying by *The Financial Times*. "It will take five to eight years. But we think Indonesia can have a niche (in creative industries) because of the very rich artistic capability of Indonesia and the very rich cultural heritage, as well as very high skills."

The move is seen as an important plank in a wider, long-term strategy to diversify Indonesia's economy away from the resource-based industries and labor-intensive manufacturing on which it now relies.

Officials point to the recent arrival of Royal Doulton, the British tableware and collectables manufacturer, as a sign of how overseas companies can tap into Indonesian creativity. It has a large factory near Jakarta and recently transferred 1,400 jobs to it from Britain, opening a design studio nearby.

Narinder Arora, head of Royal Doulton in Indonesia, said the local population's creativity is something of a hidden talent. "They're very poor at marketing," he said, "and they're very shy people, but what we've discovered with our products is that the quality and the creativity is as good as their British counterparts."

Pangestu said the drive to push investment in the creative industries would require a shake-up of government policies regarding intellectual property rights and education.

Indosat Calls off Rp1t Bond Sale

Cellular operator PT Indosat will scrap a Rp1 trillion (\$110 million) bond sale as the US sub-prime crisis drove up interest rates.

The company will monitor market developments and may sell the bonds when it's able to obtain a lower rate, Orias Petrus Moedak, managing director of PT Danareksa Sekuritas, which is advising Indosat on the sale, said in a text message to Bloomberg News on Thursday (25/10/07).

Indosat joins companies including Banpu Pcl, Thailand's biggest coal miner, in postponing bond and share sales after the US sub-prime crisis reduced demand for the securities in emerging markets. Indosat had planned to use the funds to expand and keep its market share with the entry of new competitors, such as billionaire Li Ka-shing's PT Hutchison CP Telecommunications.

The delay "wouldn't be too worrying as they have raised" part of the funds needed, said Kim Eng's Jakarta-based analyst Katarina Setiawan. Indosat sold Rp3 trillion of bonds in May and borrowed Rp2 trillion of bank loans in September.

Indosat raised its spending plan for this year by 20% to \$1.2 billion as competition intensified. Funds from the planned bond sale would help Indosat improve capacity, including the addition of 2,118 mobile phone transmitting towers this year, bringing the total to 8,366.

Car Sales Fall Slightly Despite Holiday Season

Car sales fell slightly to 41,035 units in September from 41,471 units the previous month, Antara reported on Tuesday (23/10/07).

The fall was unexpected as normally, sales increase ahead of the Islamic Idul Fitri celebrations, which fell in the second week of this month, said the association of motor vehicle manufacturers, Gaikindo.

Gaikindo chairman Bambang Trisulo attributed the decline to an increase in insurance premiums on motor vehicles by the government last month.

However, the country's largest automotive company, the Astra Group, posted a 0.5% increase in sales to 19,939 units from 19,845 units.

Meanwhile, sales of new motorcycles in September rose 12% on month to 477,072 units. For the first nine months of the year, new motorcycle sales rose 9% on year to 3.39 million units, Dow Jones Newswires reported.

Gaikindo did not provide a reason for the increase in sales, but analysts attributed it to cheaper borrowing costs.

Market leader Astra said it sold 1.49 million motorcycles in the January to September period, down 8% from 1.62 million a year earlier.

BANKS

Mandiri to Gauge Overseas Demand for Bond

Bank Mandiri plans to meet investors in Singapore, Hong Kong and London as early as next month to gauge demand for a planned sale of \$300 million of bonds, an official said.

"We have not got the precise time table, we may meet investors in November or December," Bank Mandiri chief financial officer Pahala Mansury told Bloomberg News on Tuesday (23/10/07).

The bank will use proceeds from the five-year bond sale to repay debt maturing next year and to increase its dollar holdings, Mansury said in August. It will sell the securities between October and January, Agus Martowardojo, president director, said on September 18.

The bonds will give investors access to Indonesia's \$364 billion economy, which is forecast by the government to expand by 6.3% this year from a 5.6% pace in 2006.

Bank Mandiri hired Barclays Capital and Deutsche Bank AG to arrange the debt sale.

Mandiri sold \$300 million of bonds in April 2003. The securities, which mature in April 2008, are rated three levels below investment grade at BB- by Standard & Poor's and pay interest of 7%.

Danamon's Q3 Profit Up on Increased Lending

Bank Danamon said profit gained 63% in the third quarter as loans grew in an accelerating economy.

Net income rose to Rp580.1 billion (\$63 million) from Rp356 billion a year earlier, based on Bloomberg calculations, which subtracted first-half figures from nine-month numbers released Thursday (25/10/07).

Outstanding loans rose to Rp50.15 trillion at the end of September, from Rp40.96 trillion a year earlier. "Our loans to the micro, small and medium businesses and consumer finance are contributing well to our bottom line improvement from the previous year," president director Sebastian Paredes said.

Net income in the first nine months rose to Rp1.6 trillion, from Rp914 billion a year earlier, he said. Net interest income, or revenue from borrowers after interest was paid to depositors, rose to Rp5.3 trillion from Rp4.09 trillion a year earlier.

"Assuming growth in the fourth quarter remains robust, our full-year net profit will be significant," Paredes said.

In an interview with Reuters last month, he said the bank's full-year net profit growth would not be as strong as in the first half, when net profit surged 83% following a weak performance in early 2006.

POWER

Icelandic Firm in Geothermal Deal

State oil firm Pertamina and Iceland's Reykjavik Energy Invest have signed a preliminary deal to develop a geothermal power plant in Indonesia, Pertamina said on Tuesday (23/10/07).

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

"Under the agreement, we will evaluate geothermal areas that are owned by Pertamina. After we find some good prospects, then we will develop them," Reuters quoted Pertamina president Ari Soemarno as telling reporters.

Pertamina has around 17 areas in Sumatra and Java that have the potential for geothermal power, but lack of investment has slowed down development.

Reykjavik chief Gudmundur Thoroddsson said the company hoped to generate 500 MW of geothermal energy in Indonesia by 2010 depending on the resources.

In February, Indonesia said it planned to tender seven geothermal areas this year to generate around 575 MW of electricity. An Indonesian mines and energy official said the country generates around 800 MW of electricity from geothermal energy and plans to increase that to 9,500 MW by 2025.

PLN to Seek Bids for Sumatra, Java Transmission

State utility PT PLN plans to seek bids to build parts of a backbone electricity line in Sumatra by early next year, Bloomberg reported.

Construction of the 275-kilovolt power line is expected to start next year and be completed by 2011, Herman Darnel Ibrahim, vice president of transmission and distribution at the utility, said in Jakarta Wednesday (24/10/07).

The new line will help PLN prevent recurring power failures in Sumatra and accommodate 1,300 MW of generating capacity, about 43% of the current total the nation plans to build by 2012.

The utility, restricted by government-controlled prices, hasn't had funds to upgrade its aging network and build new lines to connect the island's cities.

Japan Bank for International Cooperation may lend \$155 million to build the network and PLN will cover the rest of the costs, estimated at about \$620 million, Ibrahim said on April 12.

PLN also will seek 2 million metric tons a year of coal to feed a power plant in Java in a decade-long contract. The utility wants to buy 1.8 million tons of thermal coal that produces 5,900 kilocalories for each kilogram burnt and 200,000 tons of the fuel that produces 5,100 kilocalories, Basuki Siswanto, general manager of the Tanjung Jati B power plant in Central Java, said on Wednesday.

The winner will supply the fuel starting 2009, Siswanto said. The power plant needs a total of 4 million tons of coal a year, of which half is already secured in another contract.

Jiangxi Electric Wins \$175m Sumatra Power Plant Contract

State-owned coal mining company PT Tambang Batubara Bukit Asam (PT BA) has awarded a \$175 million contract to China's Jiangxi Electric Power Overseas Engineering Co. to build a power plant in Sumatra.

Jiangxi Electric is expected to complete the 200-MW Banjarsari plant at one of Bukit Asam's mines on the island in 30 months, PT BA, holder of more than a quarter of the country's coal reserves, told Antara news agency.

The plant will allow PT BA, which will supply coal to the coal-fired power plant, to boost annual production by 1.15 million tons or 13% of its estimated output this year.

The Banjarsari project in which PT BA has a 41% stake will cost around \$241 million including building transmission lines. Its partner PT Navigat Innovative Indonesia and PT Pembangkit Jawa Bali hold 39% and 20% respectively.

OIL & GAS

Major Energy Deals to be Signed

The government and a number of companies are set to sign energy contracts worth over \$10 billion at the opening of the Asia Pacific Oil and Gas Conference and Exhibition (APOGCE) 2007 this Monday (29/10/07).

"The signing of the contracts will be witnessed by President Susilo Bambang Yudhoyono," Energy and Mineral Resources Ministry secretary general Waryono Karno said last Thursday.

According to a document received by *The Jakarta Post*, the agreements cover finance and development of oil and gas projects, power projects and natural gas sales. The highest value deal to be signed relates to sales agreements for 1.641 trillion British thermal units of gas worth about \$5.5 billion.

Other projects include agreements governing development of the Oyong (oil) and Ujung Pangkah (oil and gas) fields in East Java, respectively worth an estimated \$303 million and \$930 million.

The Oyong field, operated by Australia-based Santos, is expected to produce 6,000 barrels of oil per day, while Ujung Pangkah, operated by US-based Hess, is to produce 6,000 barrels per day and 10 million cubic feet of gas per day.

During the event, state-owned electricity company PLN will also sign five power purchase agreements with independent power producers and agreements for the construction of five coal-powered plants to be built outside of Java as part of the government's crash program to produce 10,000 additional MW of electricity by 2010.

The five new plants are in North Sumatra (400 MW), Lampung (200 MW), North Sulawesi (50 MW), Gorontalo (50 MW) and West Nusa Tenggara (50 MW).

"We will also see the signing of the second stage loan agreement for the Tangguh project which is worth \$884 million," Waryono said.

The loan will be provided by a consortium of lenders led by China's Fujian bank.

BP May Build More Processing Units at Tangguh

Amid surging domestic and foreign demand, the Indonesian subsidiary of energy giant BP is considering constructing more liquefied natural gas (LNG) processing units at the company's Tangguh plant in Papua, *The Jakarta Post* reported.

Tangguh project executive vice president David Clarkson said Tuesday (23/10/07) the company had set up a special team to study the possibility of new trains at the existing plant. "We have determined a site that can be used for up to eight trains," he told journalists visiting Tangguh.

Clarkson said the new trains would be built to increase LNG production from two other trains currently nearing completion. "We are concentrating on getting these (two trains) finished. We are also looking at further development and opportunities for building more trains," he said.

BP began construction of the two trains in March 2005. The first is expected to begin commercial operation in January 2009 and the second is to come online five months later. As of September, the project stands at 82% completed.

Tangguh will sell LNG to four overseas buyers -- China's Fujian (2.6 million tons a year), South Korean K-Power and Posco (1.11 million tons a year) and Sempra Energy on the western coast of Mexico (3.6 million tons a year).

Energy and Mineral Resources Minister Purnomo Yusgiantoro has said he would like to see BP sell LNG from the trains under consideration on the domestic market.

Upstream Oil and Gas Regulatory Agency (BPMIGAS) chairman Kardaya Warnika has said that some domestic companies - including state-owned electric company PLN and state gas distributor PGN -- have shown interest in buying gas from Tangguh.

In response, Clarkson said BP had not yet decided where it would sell LNG from the planned trains. "We still want to see where the best business opportunity is."

Total, Inpex to Spend \$1.5 Billion in Kalimantan

Total SA, Europe's third largest oil company, and partner Inpex Holdings Inc. plan to spend \$1.5 billion next year to drill for gas in Kalimantan, Bloomberg reported.

The explorer will pump gas from Tunu, Peciko, Sisi and Nubi fields in the Mahakam Delta, Ananda Idris, spokesman of Total's Indonesian unit, said in Jakarta Wednesday (24/10/07), without giving this year's spending.

Production from the area will be maintained at 2.6 billion cubic feet a day on average next year, Idris said. The fields supply more than 70% of the gas needs for PT Badak NGL's liquefied natural gas plant in East Kalimantan province, the larger of two such facilities in Indonesia.

Total is in negotiation to extend a contract to drill for gas in East Kalimantan that expires in 2017, Philippe Armand, president of Total's Indonesian unit, said in March. The contract extension will enable Total and Inpex to invest \$8 billion to tap an estimated 13 trillion cubic feet of remaining reserves in the area.

MINING

Technip to Build \$2 bn Nickel-Cobalt Plant

French metal producer Eramet has awarded a contract to build a \$2 billion nickel-cobalt refinery plan in Maluku province to Technip, a French engineering and construction company, *Platts Commodity News* quoted Technip as saying Tuesday (23/10/07).

Technip said the company was awarded the contract which covers construction of a plant treating laterite and associated infrastructure on the island of Halmahera.

The plant will be based on a hydro-metallurgic process developed by Eramet and will produce around 60,000 mt/year of nickel and 3,500 mt/year of cobalt, according to the company. The plant is expected to come on stream in 2013.

Hydro Aluminium Seeks \$2 bn Investment in Bauxite

Hydro Aluminium AS of Norway, one of the five biggest producers of the metal, is seeking to invest as much as \$2 billion to mine bauxite in Kalimantan, Bloomberg reported.

"We are interested to develop the aluminum industry in Indonesia," Harald Martinsen, vice president of business development at Hydro, told reporters after meeting Minister of Energy and Mineral Resources Purnomo Yusgiantoro Tuesday (24/10/07) in Jakarta. "We have finished the feasibility study and the result is clearly good."

Hydro wants to build a smelter with capacity to produce 2 million tons of aluminum a year from bauxite ore, Martinsen said.

The investment plan is the second multi billion dollar proposal in two months for mining bauxite in Kalimantan.

United Co. Rusal, the world's biggest aluminum producer, signed a \$1.5 billion accord with state-owned PT Aneka Tambang on September 6 to build a bauxite and alumina complex in East Kalimantan.

The venture aims to produce 3.6 million metric tons of bauxite and 1.2 million tons of alumina starting 2011. Rusal, based in Moscow, would take a 51% stake and Antam, as Aneka Tambang is known, would have the balance.

Hydro, a unit of Norsk Hydro ASA, also based in Norway, will team up with PT Indonesia Alumina, to develop a smelter in West Kalimantan province, said Sofyan Wanandi, president commissioner of the private company. The two companies are willing to work with Antam, Sofyan added.

Bukit Asam Awards Contract to China Railway

State coal miner PT Bukit Asam said it has awarded China Railway Engineering Corporation (CREC) a contract to build a track that will transport coal from its Tanjung Enim mine in South Sumatra to nearby ports, *Investor Daily* reported Thursday (25/10/07).

Both companies plan to form a joint venture company prior to the construction of the railway track, the paper said.

Bukit Asam operations and production director Milawarma had said previously that the company expects construction to be completed in 2010.

The new track will boost the company's coal sales to 20 million tons per annum from around 10 million in recent years, he said.

Inco Doubles Q3 Earnings

Nickel miner PT International Nickel Indonesia (Inco) said Friday (26/10/07) its third quarter net profit more than doubled to \$265.5 million from \$124.6 million a year ago aided by a higher nickel price. Third quarter sales rose 82.6% from a year ago to \$561.6 million.

According to Thomson Financial, for the first nine months, Inco said it booked a net profit of \$972.6 million, up 292.3% from the corresponding period a year ago. Sales rose 149.6% year-on-year to \$1.87 billion.

It said the average selling price it received during the third quarter reached \$26,500 per ton of nickel-in-matte compared to \$21,009 a year ago.

Under Inco's long term sales contracts, the selling prices of its nickel-in-matte is determined by a formula based on the LME cash price for nickel and the CVRD Inco Ltd average realized price for nickel, it said.

Inco said its nickel-in-matte output in third quarter reached 19,069 tons against 17,200 tons a year earlier. The output for the first nine months rose to 58,121 tons from 50,400 tons a year ago.

PT Inco's major shareholders are CVRD Inco Limited with a 60.8% stake and Sumitomo Metal Mining Co Ltd with a 20.09% stake.

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