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## POLITICS

### President: Terrorists Have Failed

Despite a rash of bombings across Indonesia over the past seven years, terrorists have failed to further their "cause of hatred," President Susilo Bambang Yudhoyono said on Friday (27/7/07), the Associated Press reported.

The President made the comment at the opening of a \$5 million Bali eye clinic, a gift from Australia dedicated to victims of the 2002 nightclub bombings which killed 202 people, 88 of them Australians.

"Today, the terrorists who are responsible for such monstrous crimes have been captured, tried and put behind bars," the president said at a handover ceremony attended by Australian Prime Minister John Howard. "They have utterly failed in their misguided cause of hatred."

Howard said that the Australia-Bali Memorial Eye Center, which will help to restore sight to people who suffer from cataract blindness free of charge, was dedicated to victims of the October 2002 bombings.

It was also "an expression of gratitude from the people of Australia to the people of Bali for the kindness that they showed toward our fellow countrymen and women in October 2002," he said.

The two leaders also ordered a study on the feasibility of a free trade deal, expressed support for closer economic ties and also agreed to back measures to combat climate change during September's APEC meeting in Sydney.

### Court Rules for Independents

The Constitutional Court on Monday (23/7/07) ruled that independent candidates can contest local elections in a move seen as further deepening political and democratic reforms in the post-Suharto era, Agence France-Presse reported.

Democracy activists had criticized the law which allowed only candidates from national parties to stand as just benefiting the political elite while ignoring the aspirations of people in the provinces.

The judicial review of the 2004 Regional Autonomy Law was sought by a district councilor from Central Lombok who was barred from standing as an independent candidate in local elections.

In a majority six-to-three verdict, the panel of judges ruled that the law was against the constitution, said chief judge Jimly Ashiddiqie.

The verdict opens the way for independent candidates to contest elections at the provincial, district and mayoralty levels.

Independent candidates were previously only allowed to contest elections in Aceh province as part of a 2005 peace deal by the government to end decades of separatist insurgency.

Analysts said the verdict would have widespread implications for local elections and political parties.

State Secretary Hatta Radjasa said the government has yet to decide its stance toward the court's verdict, but he told the Antara news agency: "The government cannot reject the decision."

He said there will be further discussion to determine new mechanisms for regional elections, which could include either a new law altogether, a government regulation in lieu of the Regional Autonomy Law or a new regulation governing the General Election Commission.

## Former Minister Gets Seven Years

Former Indonesian Fisheries Minister Rokhmin Dahuri was sentenced on Monday (23/7/07) to seven years in jail for misappropriating more than a million dollars in state funds, the latest in a string of corruption cases targeting government officials.

Dahuri, who served from 2001-2004 under presidents Abdurrahman Wahid and Megawati Sukarnoputri, was found guilty of collecting money from the ministry's regional offices across the country and using it irresponsibly.

The Anti-Corruption Court said Dahuri misappropriated a total of Rp14.6 billion rupiah (\$1.6 million) and sentenced him to seven years in jail.

It also ordered Dahuri, who was found guilty of taking bribes from a number of businessmen, to pay Rp200 million in fines or to serve additional six months in jail. Defense lawyers said they would appeal.

## AGO Unveils Reform Policy

The Attorney General's Office announced a new internal reform policy on Monday (22/7/07), promising to improve organizational management, public access to its monitoring system and the recruitment of prosecutors and employees, *The Jakarta Post* reported.

"This reform is our response to the UN anti-corruption convention, to watch out for possible irregularities or ethical violations at the Attorney General's Office (AGO) without having to be pushed by other organizations," Attorney General Hendarman Supandji said during a speech to commemorate the AGO's 45<sup>th</sup> anniversary.

The reform package, initiated by former attorney general Abdul Rahman Saleh before he was replaced by Supandji, details reform in the areas of recruitment, training, career development, code of conduct, minimum standards and supervision.

"We would like to encourage talented and high-caliber candidates to apply for positions as civil servants in prosecutors' offices," Supandji said.

"Talent scouting at reputable universities will also be carried out regularly. We need to improve discipline, ethical performances and professionalism."

Aside from improving the recruitment process, the AGO has promised to appoint 'the right person to the right position' by conducting training and career development programs for prosecutors and other employees.

The AGO will also establish a special mechanism to ensure that people can follow the progress of complaints they may lodge against prosecutors.

## Munir Case Under Review

State prosecutors said on Wednesday (25/7/07) they will file fresh evidence in the murder case of human rights campaigner Munir Said Thalib and ask that an overturned conviction be reviewed by the Supreme Court, *Agence France-Presse* reported.

Pollycarpus Priyanto, a pilot accused of links to the National intelligence Agency (BIN) was sentenced to 14 years for poisoning Munir on a flight with national carrier Garuda to Amsterdam in 2004.

His conviction was overturned last year and he was instead handed a two-year jail term for falsifying a document, which allowed him to be released.

In an unusual move, the Attorney General's Office has presented new evidence to the Central Jakarta District Court, which will now decide whether to pass on a request for the Supreme Court to review its decision, said spokesman Thomson Siagian.

"State prosecutors are confident that the new evidence will be proven in court," said Siagian, who refused to say what new evidence had been uncovered.

John Muhammad, a lawyer with Kontras, a human rights organization founded by Munir, told AFP it was not clear yet whether the "extraordinary" request could be accepted by the court.

## REGIONS

### Peace Process in Aceh on Track: VP

Vice President M Jusuf Kalla on Saturday (28/7/07) applauded the peace process in Aceh province for achieving quite significant progress.

"It's not 100% restored, but the current condition has been improving significantly comparing to that five or ten years ago," Kalla was quoted by Antara news wire as saying in a meeting with Aceh university students.

In response to a student's question on the higher crime rate, the vice president said it was hoped that the crime rate would decrease when the economy of Aceh improved and there were more job opportunities. To boost Aceh's economy, the central government has allocated a huge amount of funds for the development of Aceh, he said.

Kalla was on a two-day working visit to Aceh, where he opened a Congress of the Aceh Businessmen and inaugurated a five-star hotel in Banda Aceh.

### Court Jails Poso Christians over Muslim Murders

A court on Thursday (26/7/07) sentenced 17 Christians to between eight and 14 years in jail over the murders of two Muslims in the religiously divided region of Poso, Central Sulawesi, Agence France-Presse reported.

Ahmad Sobari, who headed a panel of judges at one of two separate trials for the men at the South Jakarta court, said 12 defendants were guilty of violating the country's anti-terrorism law by killing the pair in September last year.

"Their actions were triggered by dissatisfaction over the execution of Tibo and his friends," Sobari said. He was referring to the state execution of three Christian militants who were on death row over violence committed against Muslims seven years ago.

Two of the group were sentenced to 14 years -- Harpri Tumongi, 28, for ordering the decapitation of one of the victims, and Edwin Poima, 26, for carrying out the order. The other victim was beaten to death.

The two Muslims, who were fish traders, had been driving a truck on a deserted mountain road when they were halted at a roadblock set up by a group of Christians angered at the execution of the militants.

The pair were buried on a nearby mountain and their truck pushed into a ravine, but their bodies were discovered two days later.

The 10 others were sentenced to 12 years in jail.

In a separate trial, Judge Saefullah Sumar sentenced the five other defendants to eight years in jail for helping to conceal the crime by assisting in the burial of the two victims.

Prosecutors had recommended sentences of 10 to 17 years.

## ECONOMY

### **S. Korea Pledges \$8.6 Billion**

President Susilo Bambang Yudhoyono won deals promising investment of \$8.6 billion in a state visit to South Korea last week.

The biggest ticket item was a \$5.5 billion plan for a coal liquefaction plant in East Kalimantan. Posco Engineering and Construction Co. Ltd., Kenertec Co. and Samsung Securities Co. have agreed to fund the project, *The Jakarta Post* reported.

Posco and Kenertec will also team up with state-owned railway operator PT Kereta Api Indonesia and Nuansa Cipta Coal Investment to build a rail line for coal, also in East Kalimantan, that will cost around \$2 billion.

M.S. Hidayat, chairman of the Indonesian Chamber of Commerce and Industry (Kadin) hailed the deals as a breakthrough in Indonesia's economic relations with South Korea.

Following his return from South Korea on Thursday (26/7/07), President Yudhoyono also met with Australian Prime Minister John Howard. The two leaders agreed to progress work on a free trade agreement that would open Australia's mature market to Indonesian products.

There was other positive news on investment in the hotel sector. Kingdom Hotel Investments, a leading international hotel and resort investment company from the United Arab Emirates, announced it was buying Jakarta's Four Seasons Hotel for \$48 million.

A statement said the purchase reflected the group's investment and diversification strategy in high growth emerging markets.

State asset management firm, PT Perusahaan Pengelola Aset (PPA) sold the luxury Bali Nirwana hotel to Singapore's E-Crisps Trading Ltd for \$55.97 million.

Consumer activity was strong, with the number of cellular phone users reported to have shot up to more than 75 million by the end of last month. Industry executives said they predicted numbers would grow to more than 100 million by the end of 2008.

Cement sales rose 5.2% in June to 2.77 million tons from the same month in 2006, market leader PT Semen Gresik reported.

## MACROECONOMY

### Inflation to Move Lower: BI

Bank Indonesia (BI) sees no need to keep its benchmark interest rate, the BI rate, high if inflation remains low, Senior Deputy Governor Miranda Goeltom said on Thursday (26/7/07).

Goeltom's remarks came a day after she said the annual consumer inflation rate in July is likely to be lower than June. "As long as BI feels secure to cut interest rates and it would be harmless for inflation, then there is no need to keep the interest rate high," Goeltom was quoted as saying by Reuters.

Inflation has fallen in recent months due to stable prices of food, which have the biggest weighting in the consumer price index. Headline annual consumer inflation fell to 5.77% in June, the second lowest monthly reading since prices spiked in late 2005 after the government hiked domestic fuel prices.

The central bank cut its benchmark interest rate to 8.25% in July, its lowest since the rate was introduced in July 2005 at 8.5%.

### Rupiah Weakening Temporary – BI

The weakening of the Indonesian rupiah is temporary and will not affect the central bank's monetary policy, Bank Indonesia (BI) Deputy Governor Hartadi Sarwono told Reuters on Friday (27/7/07).

The rupiah fell to its lowest level in four-and-a-half months, shedding 1.3% to 9,240 per dollar, as investors unwound their holdings of risky, high-yielding assets after turbulence in broader credit and stock markets. Later, it regained some ground and traded at 9,215 per dollar.

"At this level it will not affect it. It is still in our range," Sarwono said when asked if the weakening of the rupiah will have an impact on the central bank's monetary policy.

"External factors have more influence on the rupiah, this one is just a temporary adjustment," he said, adding that the currency has room to strengthen again.

Meanwhile, Standard Chartered predicted that the central bank, after lowering its key rate by 1.5 percentage points this year to 8.25% to stimulate growth, will drop the benchmark another 0.75 percentage point in 2007 to 7.5%, and then limit rate cuts to a half-percentage point next year.

### Confidence in Economy Up – BI Survey

Recent improvements in Indonesia's macroeconomic indicators are improving confidence in the economy as a whole, with the central bank's latest survey showing estimates of higher growth built on more investment and a continued increase in bank lending for the year.

With inflation in check, coupled with a fairly steady rupiah, the economy is expected to have expanded between 5.1% and 6% on-year during the second quarter, and is expected to continue growing at the same levels throughout the year, *The Jakarta Post* reported on Monday (23/7/07).

Growth may even reach 6.47% as investments and exports pick up further, according to a quarterly survey on the economy conducted by Bank Indonesia (BI). The survey involved 100 economists, market analysts and academics in 13 major cities throughout the country.

The survey says that local and foreign investments will increase during the second half of this year, as Indonesia's exports grow by between 15.1% and 22.5%.

The higher investment will echo robust activity in the country's main economic driver,

consumption, which will be supported by relatively stable consumer prices, while the rupiah remains between Rp9,001 and Rp9,500 to the US dollar, creating a stable environment for trade activities.

The government is expecting 6.3% full-year growth for 2007, and 6.6% for 2008, on inflation of 6.5%.

## INVESTMENT

### **Korean Firms to Invest Up to \$8.6b**

A number of South Korean conglomerates on Wednesday (25/7/07) agreed to invest nearly \$8.6 billion in Indonesia's energy and infrastructure projects, as part of the two countries' partnership agreement signed late last year,

The signing of the agreements for the projects, which could turn South Korea into Indonesia's biggest investor, was witnessed by President Susilo Bambang Yudhoyono and South Korean Prime Minister Han Duck-so, reported *The Jakarta Post*.

One of the agreements will provide the foundation for Korean conglomerates Posco Engineering and Construction Co Ltd, Kenertec Co, and Samsung Securities Co to develop a \$5.5 billion coal liquefaction plant in East Kalimantan. The Korean companies will cooperate with Indonesian firm PT Nuansa Cipta Coal Investment in carrying out the project.

Posco and Kenertec will also team up with state-owned railway operator PT KAI and Nuansa Cipta Coal Investment to build a \$2 billion railway line for the transportation of coal in East Kalimantan.

The other major projects include the development of a \$600 million coal-receiving terminal in Tanjung Api-Api, South Sumatra by a Korean consortium led by Innet Company Ltd. and local firm PT Petras Indonesia.

LG subsidiary E1 will form a joint venture with local firm Pertamina to build a \$7 million natural gas liquefaction plant in South Sumatra.

"The investment plans have been well thought out and I'm sure there will no problems with their implementation. We will facilitate these projects so that they can proceed as expected," Trade Minister Mari Pangestu said, adding there are no plans to provide special incentives to speed up their implementation.

In the upstream oil sector, Korean state-owned firm Korea National Oil Corporation (KNOC) and energy firm SK Corp will invest about \$25 million on a number of oil and gas exploration projects, to be carried out in partnership with state oil and gas company PT Pertamina.

The deals form part of dozens of action plans drawn up under the strategic partnership agreements signed during the visit of South Korean President Roh Moo-hyun to Jakarta in December.

The Indonesian Chamber of Commerce and Industry (Kadin) hailed the deals as a breakthrough in Indonesia's economic relations with South Korea.

### **Credit Suisse to Lend \$719m for Toll Roads**

Credit Suisse has agreed to lend Rp6.5 trillion (\$719 million) to help finance the construction of 170 km of toll roads in Indonesia, the Public Works Department said on Wednesday (25/7/07).

The 10-year loans will help finance 70% of the cost of three toll roads in Central Java, while the rest of the funds will come from three local investors, Hisnu Pawenang, head of the toll road regulatory body, said.

The three toll roads running from Pejagan to Semarang in Central Java are expected to be finished by the end of 2009.

"Many investors are now interested in investing in toll roads as the government has revised some regulations. By the end of 2009, I hope most toll road projects planned by the government, especially in Java, will be completed," Pawenang told Reuters. "It is important for our economy."

Indonesia launched a 1,000-km toll road project at the end of 2004 running across Java.

The Rp52 trillion toll road project, due to be completed by 2010, was aimed at stimulating economic growth.

## **Asian Agri to Build Crude Palm Oil Factories**

PT Asian Agri plans to invest Rp1.3 trillion (\$142.9 million) to build crude palm oil factories to increase its production by up to 10%, *The Investor Daily* reported on Thursday (26/7/07).

The daily quoted Semion Tarigan, director of one of its units, PT Inti Indosawit, as saying the firm plans to expand its annual crude palm oil production capacity by 100,000 tons.

"The investment worth Rp1.3 trillion is for building five crude palm oil factories and several oleochemical processing units," Tarigan was quoted as saying by Reuters.

Asian Agri has 150,000 hectares of palm oil plantations and 16 crude palm oil processing factories with a production of 1 million tons of crude palm oil per year.

Rudy Victor Sinaga, the firm's corporate communications manager, said most of the investment would come from the firm's own cash and the rest from bank credit.

## **Kingdom Hotel Acquires Four Seasons Hotel**

Kingdom Hotel Investments (KHI), an international hotel and resort investment company chaired by Saudi Arabian Prince Alwaleed bin Talal, acquired the Four Seasons Hotel in Jakarta for \$48 million.

The acquisition, KHI's first in Indonesia, expands the company's portfolio in Asia to nine properties in seven countries, which now includes the Indonesian hotel market, Xinhua reported on Thursday (26/7/07). KHI will own an 81.9% stake in the 365-room hotel.

KHI chairman Prince Alwaleed bin Talal said, "We continue to see considerable potential and opportunity in the Asian region and are delighted to be announcing today our first investment in the rapidly growing Indonesian hotel market."

### **STATE CONCERNS**

## **Australia, Indonesia Agree to FTA Feasibility Study**

Australia and Indonesia have agreed to launch a feasibility study on a free trade pact, their leaders said Friday (27/7/07) after meeting in Bali, Agence France-Presse reported.

Australian Prime Minister John Howard held talks with President Susilo Bambang Yudhoyono for under an hour during his seven-hour visit, during which he opened an eye clinic and a new consulate.

Howard told a press briefing they had discussed the countries' economic relations. "I welcomed during that the fact that we have agreed to do a joint study about the feasibility of a free trade agreement between our two countries," he added. "The more that we can develop those investment links, the closer will become the bonds between our two societies."

Dr. Yudhoyono also said Indonesia had agreed to the study, proposed after a visit by Australia's trade minister last month. Indonesia is Australia's 10th most important export market.

SOEs

## **Adhi Karya H1 Net Profit Up Nearly 17-Fold**

State-run construction company PT Adhi Karya's first-half net profit increased nearly 17-fold to Rp40.43 billion from Rp2.26 billion in the same period last year, aided by higher sales and lower "other charges", the company said Thursday (26/7/07).

Adhi Karya said its first-half sales were 9.7% higher than last year at Rp1.77 trillion, Thomson Financial reported. Its operating profit increased 61.9% to Rp103.1 billion, while its "other charges" dropped 25.1% to Rp45.2 billion.

## **Govt. Sells Bali Hotel to Singapore Firm**

State asset management firm PT PPA sold the luxury Bali Nirwana hotel in Bali for Rp510.8 billion (\$55.97 million) to Singapore's E-Crisps Trading Ltd, PPA said on Thursday (26/7/07), according to Reuters.

The state firm had short-listed three other bidders – South Korea's Hanwha Securities and Samtan Co Ltd and Singapore-based Pink Sapphire Investment Ltd.

The government sold a 70% stake and receivables in PT Bali Nirwana Resort, which operates the 103-hectare resort hotel, which has 278 rooms and an 18-hole golf course.

## **Pawn Shop to Launch \$67m Bonds Issue**

State-owned pawn shop operator PT Perum Pegadaian said it plans to issue 10-year bonds worth Rp600 billion (\$66.6 million) to strengthen its working capital.

The fixed-and/or floating-rate bonds will be divided into series-A bonds worth Rp400 billion and series-B bonds worth Rp200 billion, the company's president director Deddy Kusdedy was quoted as saying by Antara on Wednesday (25/7/07).

The series-A bonds will carry a coupon of 9.75% to 10.1% while the series-B bonds a coupon of 9.75% to 10.1% in the first year, he explained. "The coupon of series-B bonds in the second to 10th year, would be the same as the interest on the one-month Bank Indonesia certificates (SBI) plus 1%."

Proceeds from the bonds issue will be used to settle the company's maturing long-term debts totaling Rp135 billion and to strengthen its working capital.

## PRIVATE SECTOR

### **Calm Down Over Nike: Minister**

Manpower and Transmigration Minister Erman Suparno called on workers who have been protesting the loss of contracts with sports shoe major Nike to calm down as Nike had agreed to extend its contracts with the two companies.

"Nike Inc. has shown goodwill and is ready to sit at the negotiating table. The government team mediating between the two sides has proposed the option of a possible contract extension and Nike has agreed to this," Suparno said, *The Jakarta Post* reported.

He was speaking after receiving the executive board of the Indonesian Footwear Manufacturers Association (Aprisindo) on Wednesday (25/7/07).

The owner of two factories that Nike said would lose contracts and the American-based shoemaker met on Tuesday (24/7/07), although a firm deal was not reached.

Nike agreed to extend contracts for PT Nagasaki Parama Shoes Industry (Nasa) and PT Hardaya Aneka Shoes Industry (Hasi), which together employ 14,000 workers.

"The proposed deal is still on. We are currently rewording it," Siti Hartati Murdaya, president director of PT Central Cipta Murdaya (CCM), which owns the two companies, told the *Post* on Wednesday.

Nike proposed extending the period during which it would continue placing orders to 12 months for Hasi and 24 months for Nasa, as earlier demanded by CCM, from nine months for both.

Murdaya said the two sides had reached a degree of understanding on major issues but did not yet see eye to eye on a number of points, including requests from Nike for the factories to produce different shoes.

Nike was represented at the meeting by vice president Erik Sprunk, with Muhammad Lutfi, head of the Investment Coordinating Board (BKPM) moderating the talks for the government.

### **Indosat's Cellular Subscribers Up 44% End-June**

Second biggest telephone operator PT Indosat said Tuesday (24/7/07) its cellular subscriber base grew 44% year-on-year to 20 million at end-June, with 3.3 million added in the first six months to June.

Indosat has earmarked at least \$1 billion to be spent on broadening and strengthening its network in 2007, Thomson Financial reported.

Meanwhile, the number of subscribers to the network of PT Excelcomindo Pratama, Indonesia's third largest cellphone carrier, was 10.2 million at the end of June, 22% more than a year before, the company said Tuesday.

Excelcomindo president Hasul Suhami said in a written statement that his company's capital expenditure had increased to Rp2.9 trillion in the first half from Rp2.3 trillion a year earlier as it spent to increase the quality and capacity of its network.

### **Indocement's H1 Net Profit Up 5%**

The country's second largest cement maker, PT Indocement Tunggul Prakarsa reported on Wednesday (25/7/07) its first-half net profit rose 5% from a year ago on higher domestic cement sales.

Indocement, controlled by Germany's biggest cement maker HeidelbergCement, said in a statement its first-half net profit rose to Rp360 billion (\$39.63 million), up from Rp343 billion a year ago, Reuters reported.

The company said it sold 4.8 million tons of cement in the first half of this year, up 8.6% from 4.4 million tons in the same period last year.

Cement sales rose between 7.5% and 8% in the first half of the year to about 15.5 million tons partly due to government moves to develop some infrastructure projects and recovery of the property sector. Revenue at Indocement climbed 3% to Rp3.15 trillion.

Indocement, which has the country's single largest cement plant, said operating profit declined by 7.7% to Rp580.3 billion on rising delivery and selling expenses as it sold more cement to areas beyond Java.

Cement sales in the country totaled 32.1 million tons in 2006.

## BANKS

### **Banks Set to Cut Loan Rates in Q3 - BI Survey**

Commercial banks are expected to reduce their lending rates in the third quarter, with the sharpest fall seen in the consumer loan sector, a central bank survey showed on Thursday (26/7/07).

Bank Indonesia (BI) did not elaborate, but analysts say a fall in the benchmark BI rate, the stronger financial status of commercial banks and an improving domestic economy mean banks are in a better shape to cut lending rates, Reuters reported.

The central bank cut its benchmark interest rate to 8.25% in July, the lowest since July 2005, yet lending rates have remained at 14% to 17%.

The quarterly survey of banks based in Jakarta showed lending rates for working capital would fall around 30 basis points to an average 13.9% in the third quarter from the second quarter.

The survey indicated lending rates for investment would fall 40 basis points to an average of 14%, while lending rates for consumption are expected to fall 50 basis points to an average 16.5%.

"The financial position of banks is stronger, non-performing loans have fallen. Also, they cannot rely too much on SBIs as a source of income, so they have to extend more loans," Winang Budoyo, an economist at Lippobank, said, referring to short-term central bank debt paper (SBIs).

The central bank did not give details on the number of banks participating in the survey, but most of the country's 130 banks have offices in the capital. Analysts said stiff competition in the consumer loan sector is also a key reason for the sharp fall in lending rates for consumer loans.

The falling BI rate has made it less attractive for banks to invest their excess funds in SBIs. Banks held Rp197 trillion (\$21.65 billion) worth of SBIs as of May this year against Rp207 trillion in January this year.

The central bank is forecasting an 18% loan growth for the entire banking sector this year, which should help Indonesia meet a forecast growth in gross domestic product of 6.2% in 2007, higher than last year's 5.5% growth.

## **BII Says Considering Danamon Merger**

Bank Internasional Indonesia (BII) is considering a possible merger with Bank Danamon to meet a regulation on ownership structure, an executive said on Wednesday (25/7/07).

BII vice president Sukatmo Padmosukarso said the bank is reviewing three options ahead of the introduction of a central bank regulation prohibiting a single interest controlling more than one bank in the country.

"We are currently reviewing three options. One is a merger with Danamon, another is advising the shareholders to set up a holding company and the final one is proposing they divest their stake in one of the banks," Padmosukarso told Reuters. "At this point we cannot say which of the three is the best option."

BII chief executive Henry Ho Hon Cheong however said the merger would be the best option. "After studying several options, I think merger with Bank Danamon is the best option," he was quoted as saying by Dow Jones Newswires.

The options will be presented to the bank's shareholders, which include a consortium comprising South Korea's Kookmin Bank, Singapore state investment arm Temasek Holdings, and Britain's Barclays Plc.

Temasek also has a stake in Danamon and might have to consider its ownership in the banks if the central bank implements the single presence policy.

## **Mandiri Eyes Acquisitions Over Next 2 Years**

Bank Mandiri is planning to acquire five medium sized banks as part of its growth strategy, president director Agus Martowardojo said Thursday (26/7/07).

*Bisnis Indonesia* quoted senior Mandiri official, Haryanto Budiman as saying the bank is also going to acquire a multi-finance and insurance company.

"The banks that we would like to acquire are specialist banks, with a focus on a particular segment such as agriculture, plantations or housing, but the takeover banks will remain independent entities," Budiman said.

"We have set our eyes on a number of banks, less than five, the owners of those banks have no knowledge of our plan. However, we have made necessary preparations and are waiting for the central bank's approval."

He also said the bank is aiming to acquire a multi-finance company to increase its exposure to the growing consumer loans market and is also looking for an insurance company.

## **Commonwealth Close to Sealing Bank Buy**

The Commonwealth Bank of Australia (CBA) is close to completing its acquisition of a 95% stake in Surabaya-based Bank Arta Niaga Kencana, the founder of the Indonesian bank Harry Wijaya said Wednesday (25/7/07), according to Dow Jones Newswires.

Wijaya declined to mention the value of the transaction, but said that he will get a 20% stake in insurance company PT Commonwealth Life as "compensation".

In June, Commonwealth Bank bought local insurance company PT Astra CMG Life and has renamed it PT Commonwealth Life.

## OIL & GAS

### **Panigoro May Sell 20% of Medco Holding**

Indonesia's Panigoro family is in talks with Mitsubishi Corp. on the possible sale of 20% of stakes in Enchore Ltd., the Panigoro family company that holds a 50.7% stake in PT Medco Energi Internasional.

Arifin Panigoro, the founder of Medco, told Dow Jones Newswires that British Virgin Islands-based Enchore is in talks with Mitsubishi but stressed that no decision had been made. A banker familiar with the deal said a 20% stake would be valued at around \$300 million.

Panigoro said he hoped a deal could be sealed within a month, enabling Enchore to repay some of its debts and help finance the business expansion of its units.

Separately, Global Insight Daily Analysis reported that Medco and its partner, Canada's Verenex, announced that they had found oil with total daily output of 50,000 b/d at their Libya concession.

The report said the find will almost double Medco's current daily output of around 54,000 b/d.

The field is located in Libya's Area 47 block in the Ghadames Basin; Medco and Verenex hold equal 50% stakes in the block, with the latter the operator.

### **SK Energy, Pertamina In Exploration Pact**

South Korea's SK Energy and state-owned oil company PT Pertamina will begin exploring at least three oil fields in the Middle East and Indonesia, Pertamina Pertamina president director Ari Soemarno told Dow Jones on Wednesday (25/7/07).

However, he didn't provide a timetable for the exploration or specific locations of the fields.

In April, Pertamina signed a preliminary agreement with SK Energy, South Korea's largest refiner by capacity, and Korea National Oil Corp. to cooperate in oil development projects.

The three companies are still conducting feasibility studies on oil field development, said SK Energy, which was formerly known as SK Corp.

SK Energy and Pertamina are already cooperating on a \$200 million, 7,250-barrel-a-day lube base oil facility in Dumai, Indonesia, that will begin operations by the first half of next year. Lube base oil is a key raw material used to produce lubricant.

The two companies Wednesday launched a joint lubricant brand named ZIPEX, which they plan to export to Pakistan from September 2007, where SK Energy claims 20% of the high-quality base oil market.

South Korea's Ministry of Commerce, Industry and Energy said Wednesday that Korea and Indonesia signed nine agreements in Seoul for energy projects in Indonesia totaling \$8.5 billion.

The contracts are mainly for mining, oil and gas investment cooperation in Indonesia, and reflect South Korea's aim to secure more energy resources to meet growing domestic demand. Korea is the world's fourth-largest crude oil importer.

All the pacts were signed during President Susilo Bambang Yudhoyono's visit to Korea from Monday to Wednesday.

## Oyong Oil From September: SPC

Singapore Petroleum Company (SPC) now expects the first oil to start flowing from its Indonesian Oyong field in September after equipment delays, chief executive Koh Ban Heng told *Business Times* Thursday (26/7/07).

He was responding to a query on whether the timeline had slipped from the last-indicated June production date. SPC indicated in its Q2 results statement on Wednesday that 'first oil production from Oyong is now targeted to be in H2'.

Oyong, in which SPC has a 40% interest, was originally slated to start producing oil in mid-2006, which means it is already more than a year late.

The problem has been securing and mobilizing the production barge amid the tight rig market. Mr Koh said yesterday: 'The barge will now sail for Oyong next week and will take a couple of weeks to reach the field. First oil is now expected in September.'

Santos, the field's Australian operator, said last month that about 5,000-8,000 barrels of oil per day (bpd) are expected from the field off East Java.

It will be SPC's second producing field after Indonesia's Kakap.

A second phase of gas development at Oyong, expected to start next year, will see the Oyong partners, including Santos and Australia's Cue Energy, sell a further 40 to 60 billion British thermal units of gas to a power plant at Grati, East Java.

Oyong will boost SPC's current production of 2,540 bpd of oil equivalent from Kakap.

## ExxonMobil Starts Appraisal Drilling at Cepu

ExxonMobil Ltd Thursday (26/7/07) started appraisal drilling in the Banyu Urip field in Cepu, which is expected to take five to six months, Dow Jones reported.

The Banyu Urip project is expected to recover more than 250 million barrels of oil and has a target production rate of 165,000 barrels a day.

The government has been banking on the Cepu field to boost its dwindling crude oil output. It remains unclear if the block will start producing oil by the government's target date of 2009.

### MINING

## 2007 Coal Production to Rise 11%

Indonesia's coal production should increase by 11% to 215 million metric tons this year due to increased demand from India and China, said Jeffrey Mulyono, chairman of the Indonesian Coal Mining Association.

Exports should increase by 32% to 165 million tons, from 125 million tons last year, he said.

Indonesia is the world's second-largest exporter of coal used to generate electricity and analysts have said the country could potentially challenge Australia for the top spot this year. "We're hoping to exceed the target and produce 220 million tons of coal this year but we're not likely to produce less than 215 million tons," Mulyono told Dow Jones , Thursday (26/7/07).

Indonesia is now China's second-largest source of foreign coal, after Vietnam. In 2006, Indonesia exported 5.17 million tons of coal to China, up 11% on year. Mulyono was unable to provide figures for this year's coal exports to China but was convinced it would be a marked increase from last year, as China has now become a net importer.

Official data show that Chinese coal imports in January and February this year rose 65.8% year to year to 8.6 million tons, while total coal exports were 7.7 million tons. Coal accounts for 70% of China's energy mix and is an important raw material for its army of thermal-power plants and industries such as steel making.

India, a budding rival to China for coal supplies, is also looking to increase its coal imports. Along with China, the two countries will account for 72% of the world's coal consumption until 2030, according to data from the International Energy Outlook 2007, a report released by the U.S. Department of Energy. India was also reported to be setting up a \$2.3 billion state-run company to buy coal assets abroad.

All this is good news for Indonesia, said Mulyono, who said the country will export 165 million tons of coal this year, or 76.74% of its total production. Last year, Indonesia exported 125 million tons of coal.

Several Indonesian companies have already reportedly increased their production estimates for 2007 in anticipation of the greater demand for coal.

## **Churchill Mining Adds Blocks at E. Kutai**

Churchill Mining said Wednesday (25/7/07) it has added potential new blocks to the East Kutai Coal Project in East Kalimantan, Dow Jones reported.

The company said that as part of its due diligence on the East Kutai coal project in Kalimantan, it has focused its recent exploration work on a 153 square km southern extension to its ground package.

The extension, offered to the company under the sale and purchase agreement it struck in May this year with PT Techno Coal Utama Prima, is contiguous to Churchill's existing ground position and potentially lifts the total project area to 552 sq km.

Initial technical due diligence and geological reconnaissance of the potential new area has located 46 coal seam outcrops ranging in thickness of between less than two meters and more than 20 meters. The ease of discovery of the coal outcrops highlights the exceptional coal prospectivity of the areas being investigated.

## **30k Tons of Tin Exported After New Law**

Indonesia has exported more than 30,000 tons of refined tin from its key tin-producing Bangka-Belitung islands since the introduction of new export rules in February, trade ministry data showed on Monday (23/7/07).

Indonesia's tin sector has been under the spotlight after a government crackdown on illegal mining in the Bangka-Belitung islands last October forced dozens of independent small smelters to close, sending tin prices on the LME to contract highs.

Following the crackdown, the government issued stringent rules for tin exports, including a minimum purity of 99.85% for refined tin and the need to provide proof of royalty payments.

Refined tin exports from February 14 to the end of June stood at 31,431.07 tons. In June alone, exports rose 7.3% to 10,684.07 tons, from 9,961.45 tons in May.

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