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REPUBLIC OF INDONESIA

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POLITICS

Troops Offered For Darfur

Indonesia, France and Denmark offered on Wednesday (1/8/07) to contribute to a joint UN-African Union mission for Darfur, a 26,000-strong force expected to be made up mostly of peacekeepers from Africa with backup from Asian troops.

Foreign Minister Hassan Wirayuda said Thursday Indonesia could offer between 100 and 150 police for the operation, the Associated Press reported from Manila, where he was attending the ASEAN summit.

The UN Security Council on Tuesday unanimously approved the force - which, if fully deployed, would be the world's largest peacekeeping operation - to help end four years of rape and slaughter of civilians in the vast Sudanese desert region.

The peacekeepers are expected to be in Darfur by year's end, with major Western powers providing only limited manpower because of Iraq and other conflicts.

The new force will absorb and take over from the beleaguered 7,000-strong AU force now in Darfur and will be known as UNAMID, reflecting "a predominantly African character," as demanded by Sudan.

French Foreign Minister Bernard Kouchner said UNAMID showed "a very new, very important phenomenon, which is that Africans want to take care of African affairs." Speaking on RTL radio, he added that UN troops in the force "will come mostly from Asia."

Denmark's Defense Minister Soeren Gade said an international conference would flesh out the needs of the force, though he did not specify a time or location.

Jakarta Calls for Disarmament Clause

Indonesia on Thursday (2/8/07) called for a US proposal for a declaration demanding an end to the spread of nuclear weapons to be changed to include disarmament, *The Jakarta Post* reported.

During the meeting of 27 foreign ministers from Asia and the Pacific at the ASEAN Regional Forum (ARF) meeting in Manila, Indonesian Foreign Minister Hassan Wirayuda exchanged views with US Deputy Secretary of State John Negroponte on whether the forum could issue a declaration of non-proliferation without mentioning disarmament.

Wirayuda said later that Indonesia took the view that while something must be done to stop the spread of nuclear weapons and other weapons of mass destruction, it should be done in parallel with nuclear disarmament.

"There's a slightly different approach in the sense that to us nuclear non-proliferation should be seen in the full context, not in separation with other elements, namely disarmament and cooperation on nuclear technology," he explained. "That's why we suggested that perhaps we should add more elements in the area of cooperation if we're going to develop it in the context of ARF."

An official attending the meeting said the US then changed the wording of the proposal, but the proposal was dropped because Indonesia insisted the issue of disarmament be included.

Ex-Minister Indicted

The Attorney General's Office has named former industry minister AR Soehoed a suspect in the alleged misappropriation of Asahan Authority funds between 1988 and 1998, *The Jakarta Post* reported.

Director of investigations at the Office of the Deputy Attorney General for Special Crimes, M. Salim, said on Wednesday (1/8/2007) Soehoed had used the funds for personal purposes. "We have asked him to hand over some documents related to the Asahan Authority," he told reporters.

Salim said the AGO had confiscated a total of 56 hectares of land in North Sumatra belonging to the Asahan Authority, which was established in 1976 to handle a hydroelectric dam and aluminum smelter.

The Development Finance Comptroller is currently determining state losses as a result of the case, he added.

Amendment for Independents

The House of Representatives on Wednesday (1/8/07) said it will amend articles in the 2004 law on local administrations to allow independent candidates to contest regional elections.

House Speaker Agung Laksono said the amendment, the consequence of a recent ruling by the Constitutional Court, will be passed before the end of the year.

He said political parties had weighed other options, including an emergency government regulation or having the General Elections Commission (KPU) to enact a regulation on independent candidates, but all felt amending the law itself was the best option.

"The government should start drawing up auxiliary regulations to support the implementation of the Constitutional Court ruling," Agung said, according to the Antara news agency.

REGIONS

Jakarta Ready for Landmark Poll

Supporters of Jakarta's two governor candidates took to the streets of the capital Friday (3/7/07), bringing much of the city to a virtual standstill on the final day of campaigning.

Supporters of Adang Daradjatun and running mate Dani Anwar, and Fauzi Bowo and his running mate Prijanto paraded through the city in decorated cars, trucks, buses and motorcycles, Jakarta took on a festive air, *The Jakarta Post* reported.

There were no reports of clashes between supporters, and when opposing convoys did converge everyone maintained the party mood.

Heavy traffic congestion was reported across the city with traffic moving at snail's pace on all major routes.

The Prosperous Justice Party (PKS) supports retired police general Adang Daradjatun and the 19-party coalition backs Deputy Governor Fauzi Bowo. Fauzi picked retired Army general Prijanto as his running mate, while PKS put forward city councilor Dani Anwar as Adang's running mate.

Bowo topped a poll of eligible Jakarta voters late last month. The poll by the Indonesian Survey Institute (LSI) says more than half of the 600 surveyed respondents -- all of them registered voters -- said they would vote for Bowo while only 22% would give their vote to Daradjatun. Another 22% of respondents said they were undecided.

Human Bird Flu Cases Stabilize: Experts

The bird flu epidemic appears to have stabilized as far as humans go but several developing nations have not been able to stem its spread amongst poultry and domesticated birds, experts said Friday (3/8/07).

"The number of human cases of bird flu appears to be stable when compared to the same period last year," Gregory Hartl, World Health Organization (WHO) spokesman for bird flu told Agence France-Presse.

The UN health agency reported 56 new human cases of bird flu until July 25 this year, 34 of which were fatal. There were a total of 115 cases last year and 79 deaths.

The World Health Organization has so far recorded 319 cases of bird flu in humans worldwide, 192 of which were fatal.

Human Trafficking Ring Smashed

A police task force has busted a human trafficking syndicate based in a housing complex, South Jakarta, police revealed Thursday (2/7/07).

The police arrested six men in different locations in Jakarta on Tuesday. The men, identified as RT, RK, AM, IR, DW and DN are believed to be the masterminds of the trafficking ring.

Task force head Sr. Comr. Anton Carlian said that the team got a tip-off a week ago. "We are still questioning the suspects because we believe that this activity is related to an international trafficking syndicate," *The Jakarta Post* quoted him as saying.

The suspects arrested Tuesday had violated the 2007 Law on the Eradication of Human Trafficking and could face 10-year jail terms, Carlian said.

The newly established human trafficking team, comprising the Foreign Affairs Ministry, the Manpower and Transmigration Ministry and the National Police Headquarters, aims to address the plight of Indonesian workers overseas, among other goals.

ECONOMY

Strong First-half Earnings

First-half earnings figures from a range of companies showed strong growth, reflecting the improving economy.

Cigarette manufacturers were among companies to report better performances, with PT Gudang Garam reporting Monday (30/7/07) a 30.4% rise to Rp710.6 billion in first-half net profit. Rival PT HM Sampoerna reported a 9.5% rise in net profit to Rp2.07 trillion.

Consumer finance companies were also reaping in profits. Car dealer PT Tunas Ridean more than doubled its first-half net profit to Rp85.2 billion. PT BCA Finance reported Rp63.5 billion net profit in the first half, a 71.1% increase from Rp37.1 billion in the same period last year.

Consumer products company PT Unilever reported a more modest but still substantial improvement, with new profit for the half reaching Rp1.05 trillion compared to Rp877 billion a year earlier.

Banks were also turning in solid returns. State-owned Bank Rakyat Indonesia (BRI) reported net profit of Rp2.358 trillion (\$257 million) in the second quarter of 2007, up 17.43% from the same period last year.

PT Bank Permata, the country's ninth largest bank by assets, said its net profit for the first six months to June rose 38% year-on-year to Rp193.63 billion. Fast-growing Bank NISP said its net profit in the first half to June rose 35% to Rp140.6 billion from Rp104 billion the previous year.

Meanwhile the government and the House of Representatives finally reached agreement to set a 2007 state budget deficit target at Rp56.3 trillion (\$6.2 billion) or 1.5% of GDP.

The government, which proposed a deficit at 1.6%, had achieved a compromise with elements of the House that wanted a lower figure, according to Emir Muis, chairman of the House budget committee.

The government's coffers were enriched by its share of Rp8.1 trillion received from the sale of nearly 26% of shares in Bank Negara Indonesia (BNI). The sale cuts the government's holding in the bank from 99.1% to 73.3%. The government will share the proceeds equally with the bank.

Nevertheless, in a market environment troubled by a slide on Wall Street, the government was forced to accept a price at the bottom of its indicative range of Rp2,050 and Rp2,700 per share.

"We had a good response from investors although there was some disturbance in the market," State Minister for State Enterprises Sofyan Djalil admitted. "But, it could have been better, if only we had privatized BNI a week ago, the price of the shares would have been higher," he was quoted as saying by *The Jakarta Post*.

Moody's confirmed that it was considering an upgrade of Indonesia's foreign-currency credit rating, Bloomberg News reported

Moody's rates Indonesia at B1, four levels below investment grade and the same as the Philippines and Cambodia.

"The move may increase the attractiveness of Indonesian bonds amid the current turbulence," said Aldian Taloputra, an economist at PT Mandiri Sekuritas Taloputra.

"Indonesia faces very good prospects for near-term growth in capital formation," Aninda S. Mitra, a rating analyst for Moody's, said in a statement. "Work may be needed on the structural reform front to improve labor regulations, tax administration and legal certainty."

The International Monetary Fund also remained upbeat, praising progress in the economy in an assessment issued on Tuesday.

Indonesia has boosted output, tamed inflation and increased its international reserves over the past year, the IMF said in its annual Article IV review of the country's economy, Dow Jones Newswires reported.

Inflation rose slightly in July to 6.06% year-on-year after a single month rise of 0.72%. Central bank deputy governor Aslim Tadjuddin told Reuters the figure was in line with expectations.

Tadjuddin also said that a weakening of the rupiah was purely due to global factors and was not a cause for concern.

"Our economic fundamentals are quite strong . . . there's nothing to be worried about the domestic economy," he said.

The Jakarta Stock Exchange composite index closed the week at 2,269.79, a fall of 28.61 points or 1.2% for the week. The rupiah was at 9,270/9,275 to the dollar.

Indicators:

	May	June	Jan-June 07/ Jan-June 06	Trade surplus First semester
Total exports	\$9.71 billion	\$9.42 billion	14.29%	\$19.99 billion
Non-oil & gas exports	\$7.93 billion	\$7.61 billion	20.35%	\$19.61 billion
	June (y-o-y)	June (m-o-m)	July (y-o-y)	July (m-o-m)
Inflation	5.77%	0.23%	6.06%	0.72%
	Full year 2005	Full year 2006	1Q 2007	
GDP growth	5.60%	5.5%	5.97%	
Tourist arrivals	May	June	Growth/loss (m-o-m)	Growth/loss (y-o-y)
	366,137	411,264	12.33%	12.22%

Source: Central Agency of Statistics

BUSINESS BRIEFS

MACROECONOMY

July Inflation Below Expectations: BI

Headline inflation last month was "below expectations," and the country is on track to achieve its 5.0%-7.0% inflation target for the whole year, Bank Indonesia spokesman Budi Mulya told reporters Friday. The consumer price index rose 6.06% on year in July.

"The year-on-year July inflation of 6.06%, historically speaking, is below Bank Indonesia's expectations," he said, adding that the recent weakness of the rupiah is due to global factors and the central bank hoped it would be temporary, Dow Jones Newswires reported.

The dollar was trading at Rp9,260 on Friday, from Rp9,075 just over a week earlier.

Over July, the central bank and the government had logged capital outflows of Rp11 trillion comprised of one-month Bank Indonesia paper and government treasury bonds, Mulya said.

Analysts said faster inflation in July and the weakening currency could persuade the central bank to halt its campaign to loosen monetary policy and leave its benchmark rate unchanged this month.

But they added that Bank Indonesia (BI) could continue to cut borrowing costs later this year, pointing to data showing the trade surplus widened in June, comments by a government official characterizing the inflation rise as seasonal, and the temporary nature of the rupiah's recent weakness against the US dollar.

The consumer-price index in July rose 6.06% from a year earlier and 0.72% from the previous month, the Central Bureau of Statistics (BPS) said, according to Dow Jones.

The price rises were also faster than June's year-to-year inflation rate of 5.77% -- the slowest in seven months -- and its month-to-month rate of 0.23%.

BPS chief Rusman Heriawan attributed July's inflation reading to the seasonal increase in educational costs associated with the beginning of the new school term in June, which he said caused the most significant inflationary pressure last month.

Analysts said the rising inflation figures would likely prompt BI to stop cutting its benchmark rate, at least for this month.

Indonesia to Maintain Growth - IMF

Indonesia can maintain economic growth in the 6% to 7% range and the value of its currency does not look out of line with fundamentals, the International Monetary Fund (IMF) said on Tuesday (31/7/07).

"While some estimates of equilibrium exchange rates suggest a modest undervaluation, and although the performance of manufacturing exports has been moderate relative to many competitors, the real effective exchange rate is broadly in line with fundamentals," the IMF said in a statement, according to Reuters.

The IMF said in a regular review of the country's economic health that future surges in capital inflows should be tackled by letting the currency appreciate, tempered by intervention to prevent excessive moves, while cutting interest rates. It urged care when loosening monetary policy.

"While the rupiah appreciation and moderating core inflation have opened room for limited interest rate cuts, the BI (Bank Indonesia) needs to exercise caution, keeping in mind the lags in monetary policy transmission," it said.

The currency rose 3% against the dollar in May on the back of strong foreign investment into the country but these gains were pared in June, the IMF noted.

The economy has grown strongly; the IMF gave an upbeat assessment of the performance and noted it was yielding improvements in unemployment and measurements of poverty, "where progress to date had been sluggish".

Forex Reserves at \$51.88 Bln

The country's foreign exchange reserves stood \$1 billion higher at \$51.88 billion on July 31 compared to the end-June figure of \$50.9 billion, thanks mainly to a balance of payments surplus, Asia Pulse reported.

Bank Indonesia Governor Burhanuddin Abdullah said recently that there was a balance of payments surplus of \$3.7 billion in the second quarter of 2007 thanks to improved capital balance, which recorded a surplus of \$2.3 billion.

INVESTMENT

Investment Boost for Riau SEZ

Investors pledged to plough almost \$1.8 billion into Indonesia's Riau islands on Friday (3/8/07) at a memorandum of understanding (MOU) signing ceremony witnessed by Vice President Jusuf Kalla, *Business Times* reported.

Twenty companies from the oil and gas, marine, logistics, hospitality and other sectors, including six Singapore firms, signed MOUs with the local governments of Batam, Bintan and Karimun.

Four other investors, including Indonesian businessman Kris Wiluan, signed MOUs to fulfil export contracts worth another \$100 million in Batam.

The combined investments, to be made over the next few years, will generate more than 50,000 jobs, according to Ismeth Abdullah, governor of Riau Islands province.

Investor confidence in the islands has improved since June 2006 when the Singapore and Indonesian governments agreed to cooperate and establish a special economic zone (SEZ) on Batam, Bintan and Karimun, known collectively as BBK.

So far, there are about 1,200 foreign companies in BBK, representing more than \$8 billion of investment, Ismeth said.

The biggest project signed on Friday is a \$500 million shipyard on Batam, to be built by Fabtech International and Dubai Drydocks World from the United Arab Emirates.

Other projects include a \$350 million investment by Vopak Asia in storage and handling work for the petrochemical sector on Karimun.

Resort builders also committed millions of dollars to Bintan. One company, PT Bintan Resort Cakrawala, plans to build a \$200 million Lagoi Bay Village Resort that is expected to generate more than 20,000 jobs.

Wiluan, whose company PT Citra Tubindo will build oil and gas vessel projects in Batam, said the Riau islands will complement Singapore and Johor's Iskandar economic zone to turn the region into an oil and gas hub.

Volkswagen to Set Up Plant: Report

Volkswagen plans to build an assembly plant in Indonesia next year to build a small car, the *Investor Daily* reported on Monday (30/7/07), citing a government official.

The plant would manufacture vehicles with an engine size smaller than 1.5 liters and a van, Industry Department director general Budhi Dharmadi said, according to the daily.

Last month, French carmaker Renault was reported to be planning to set up an Indonesian base to produce a van model with an annual capacity of 150,000 to 200,000 vehicles.

Vehicle sales dropped by about 40% last year, hit by weak consumer spending after the government hiked domestic fuel prices in late 2005. Volkswagen only sold 150 vehicles last year out of Indonesia's domestic sales of 318,883 units in 2006.

However, sales volumes are expected to recover to more than 400,000 units this year.

Shoe Industry Still Attracting Investors - BKPM

Investor interest in the country's shoe industry remains high despite the fact that many shoe companies have closed their businesses, Investment Coordinating Board (BKPM) chairman M Lutfi said Tuesday (31/7/07).

"The number of new companies investing in the shoe industry exceeds that of companies that have withdrawn their investment," Lutfi was quoted as saying by Antara.

He said at least nine new companies were coming to invest in the shoe manufacturing business in 2006-2007, spending a total of \$78.9 million.

Lutfi said six companies closed their businesses from 2003 to 2006. They had a production capacity of 44 million pairs of shoes annually and employed 24,996 workers.

The BKPM chief said there are 15 to 20 large shoe factories in the country, employing more than 5,000 workers, and another 100 medium and small firms.

Indonesia exported 146 million pairs of shoes in 2006 worth \$1.6 billion. Some 50 million to 60 million pairs were exported for Nike Inc worth about \$600 million to \$700 million per year, with the number of workers reaching 80,000.

STATE CONCERNS

H1 Tourist Arrivals Up 12%

The number of foreign tourists visiting Indonesia rose 12% to 2.14 million in the first half of 2007 from a year ago, the Central Bureau of Statistics (BPS) said on Wednesday (1/8/07), led by higher arrivals at Bali.

The government expects foreign tourist arrivals to increase by 25% to 6 million this year, bringing in around \$5.5 billion in foreign exchange earnings, up 22% from a year ago, Reuters reported.

Tourist arrivals in Bali rose 34% to 781,059 in the first half from the same period last year due to an improving security situation and political stability.

The bureau also said that a series of cultural events, including the annual Bali Arts Festival featuring traditional dance and music in June and July, also boosted tourist arrivals.

Slower Palm Oil Expansion from 2010

Indonesia expects palm oil output to grow sharply in the next two years, executive chairman of the Indonesian Palm Oil Producers Association, Derom Bangun said on Monday (30/7/07).

Indonesia is set to take over from Malaysia as the world's top palm oil producer this year because of rapid expansion in the last five years.

"We expect to see output grow by 8% to 9% until 2009. But we have yet to see if we can sustain the growth beyond that period," Bangun told Reuters in an interview.

Crude palm oil output is projected to hit 17.4 million tons in 2007, up from 15.9 million tons in 2006. "Expansion plans have been hampered by uncertainties in the legal status of the available land," he said, adding that the government is now checking that existing plantations are not located inside protected forests.

"Acquiring land is getting more difficult. From 2010 onwards, output will depend on the state of (palm oil) investment in 2007 to 2008," said Bangun.

Palm oil producers have asked the government to clearly define forest areas that need conserving.

Environmental groups are concerned that rapidly expanding palm oil plantations, partly due to ambitious biofuel plans, are damaging rain forests and driving out rare species.

Indonesia, which currently has 6 million hectares of palm oil plantations, may also restrict expansion by holding companies despite record-high crude palm oil prices.

"The government doesn't want holding companies to own too much land. Land has become a rare commodity," he said.

Bangun also expects the country's palm oil exports to slow down in 2007, mainly because of the growth in biodiesel demand. Exports reached 12.1 million tons in 2006.

"We have expected output to reach 17.4 million tons this year, but part of it could be used for biodiesel. So, we may only export 13.1 million to 13.2 million tons this year," he said.

"In 2008, output may rise to more than 18 million tons. Exports may hit around 14 million tons but it will also depend on the growth of the biodiesel industry," he said.

SOEs

Garuda Moves to Profit

National flag carrier Garuda Indonesia turned to profit in the first semester of this year on the back of an increase in passenger numbers and higher fares, coupled with an efficiency program, the airline's president director, Emirsyah Satar, said.

The airline booked a net profit of Rp148 billion (\$15.93 million) in the first half of the year, compared to a net loss of about Rp361 billion in the same period last year.

"Our profit in the first half was partly the result of an increase in passenger numbers to 4.36 million from 4.07 million in the corresponding period last year," he was quoted as saying by *The Jakarta Post*.

Other factors contributing to the turnaround in the airline's balance sheet were the rise in airfares and an improvement in the utilization rate of its aircraft.

Garuda had managed to fly more passengers during the first semester despite the reduction in the size of the company's fleet to 49 aircraft from 56 previously, he said, adding that the leases on seven aircraft had not been extended.

"We managed to accommodate more passengers in fewer airplanes due to an improvement in the utilization rate of each plane from an average of 8 hours and 45 minutes to 9 hours and 17 minutes a day," he said.

In the first semester, the company booked revenues of Rp5.8 trillion, an increase of 12% from the Rp5.2 trillion it earned last year.

Garuda suffered a loss of Rp811 billion in 2004, Rp688 billion in 2005 and Rp167 billion in 2006.

He said the airline's yield -- unit price per seat per km -- rose from \$0.67 to \$0.72, up 8% year-on-year. "The seat load factor grew from 70% to 76% in the first half," he added.

Garuda also reduced the number of its loss-making routes from seven to four in the first semester, said Satar.

Transportation Minister Jusman Syafii Djamal said Thursday that Garuda has passed an audit conducted by Saudi Arabia's General Authority on Civil Aviation (GACA) on safety flight procedures and maintenance.

PRIVATE SECTOR

Firms Report Higher Profits

The country's second largest tobacco company, PT **Handaya Mandala Sampoerna**, reported a 9.5% rise in its first-half net profit, benefiting from a recovery in consumer spending, Reuters reported.

Sampoerna booked a net profit of Rp2.07 trillion (\$224.9 million) in the January-June period, up from Rp1.89 trillion a year ago. The profit growth came despite its sales revenue slipping by about 1% from a year ago to Rp14.4 trillion.

Sampoerna's main rival and the country's largest tobacco company, PT **Gudang Garam** reported a 30.4% rise in its first-half net profit, thanks partly to lower operating expenses.

The company, which has been badly hit by rising costs and tough competition, managed to bring down its operating expenses by nearly 1.5% year on year, pushing its operating income up by 9.5%.

Gudang Garam booked a net profit of Rp710.6 billion (\$77.32 million) in the January-June period, up from Rp545 billion a year ago. The firm saw its sales revenue climb to Rp13.4 trillion from Rp12.67 trillion in the first half of 2006.

Telephone carrier PT **Bakrie Telecom** said its net profit for the first half rose 196.2% year-on-year to Rp42.62 billion from Rp14.39 billion, aided by stronger sales.

Sales rose 64.4% to Rp583.84 billion and operating profit gained 234% to Rp106.59 billion, according to Thomson Financial.

Palm oil company PT **Sampoerna Agro** said its net profit for the first six months to June fell 33% to Rp39.59 billion, as it spent more for separation pay and interest expenses.

It said sales rose to Rp541 billion in the half from Rp491.96 billion a year earlier, while operating profit rose to Rp140 billion from Rp101.45 billion previously.

Net income was hit by additional spending of Rp37.72 billion on separation pay and a rise in interest charges to Rp46.03 billion from Rp18.54 billion the year before.

Car dealer PT **Tunas Ridean** said its net profit in the six months to June grew 242% year-on-year to Rp85.2 billion, owing to strong sales.

The company said sales rose 12% year-on-year to Rp2 trillion while operating profit surged to Rp87.68 billion from Rp19.9 billion previously.

Company president Anton Setiawan said overall sales were boosted by increased sales at all business units, particularly in the automotive and financing units.

Setiawan said net profit at the company's automotive unit increased three-fold to Rp49 billion, while net profit at the financing unit rose 10-fold to Rp26 billion.

Indonesia's largest poultry company PT **Charoen Pokphand Indonesia** meanwhile said its net profit in the first six months of the year grew 2.2% year-on-year to Rp95 billion on the back of stronger sales.

However, foreign exchange gains, which had helped offset financing charges and boosted the previous year's net profit, were lower in the first half this year, limiting profit growth.

The company said sales rose 18% year-on-year to Rp3.71 trillion while operating profit increased 12.5% to Rp185.67 billion.

Toyota July Sales Up 20%, Yamaha Up 22.3%

Toyota Motor Corp's vehicle sales rose 20% in July on the back of a recovery in the automobile sector due to falling interest rates.

The company sold 12,927 units in July, up from 10,781 a year ago but lower than June's 13,300 units as a supply chain problem slowed down production, said Jodjana Jody, head of sales at PT Toyota Astra Motor.

"We have a slight problem in our supply chain, but it will recover soon," Jody told Reuters by telephone on Thursday (2/8/07). He estimated Indonesia's total domestic sales from all makers were about 38,000 units last month compared to 21,891 units in July 2006.

Yamaha Motor Co Ltd meanwhile sold 161,016 motorbikes in the country last month, up 22.3% from a year ago and taking it ahead of long-time market leader Honda Motor Co, industry officials said on Friday (3/8/07).

Honda sold 143,233 motorbikes in July, down 23% from a year ago and losing its top spot for the second time this year as competition between the two intensified.

Yamaha overtook Honda in terms of monthly sales volume in March for the first time after Honda had dominated the country's sector for decades.

Despite the increased competition, senior executives at PT Astra Honda Motor, the distributor of Honda motorbike, had said that the company is optimistic that it can maintain its 50% market share in the country.

In the first half of the year, Honda controlled 43.6% of the total market, down from 52.9% for 2006.

Motorcycle sales dropped by around 13% last year to 4.43 million units from a record high of more than 5 million units made in 2005.

Industry experts and analysts expect motorbike sales to recover this year and to top the 5 million mark again.

BANKS

BNI Stake Sale Raises Rp8t

The sale of a 26% stake in Bank Negara Indonesia (BNI) raised Rp8.1 trillion (\$881 million), the Office of the State Minister for State Enterprises said on Tuesday (31/7/07).

The share sale via a secondary public share offering was the biggest privatization since the government sold a minority stake in telecommunications giant PT Telkom in 1995.

"The transaction has been successfully accomplished although the market has not been really conducive. It reflects investor confidence in the Indonesian economy, the banking sector and BNI's prospects in the future," the office said in a statement, according to Reuters.

The government sold BNI share at Rp2,050 a piece, a 23% discount to the stock's last traded price on July 30.

BNI ended 7.5% down at Rp2,475 on Tuesday as speculation about the steep price discount was already floating around. The sale cut the state's stake in the bank to 73% from 99%.

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

The bank, which has a strong presence in corporate and retail banking, had total assets of about Rp175 trillion in the first quarter.

Foreign Investors Take Bank Mayapada Share

Three foreign investors have acquired 34.55% of Bank Mayapada International at a price of \$60 million.

Avenue Luxemburg SARL, Dubai Ventures Ltd and Harmony Indonesia Investment Pte Ltd became shareholders of the bank after a rights issue last month, Bank Mayapada president Hendra Mulyono said, according to an Antara report on Monday (30/7/07).

US-based Avenue Luxemburg acquired 23.03% of the bank, Dubai Venture 7.68%, and Harmony from Singapore 3.84%, Mulyono said after a recent bank shareholders meeting.

The bank reported a 40% increase in net profit to Rp30 billion (\$3.33 million) in the first half of the year, compared to the same period last year.

This year, the bank plans to open up to 80 new branches in major cities across the country and has set its net profit target at Rp90 billion. By June, the bank had Rp2.7 trillion in outstanding credits, which it expects to rise to Rp3.5 trillion by the end of the year.

Bank Danamon Sees Jump in Mortgage Lending

Bank Danamon aims to increase its mortgage lending by 50% by the end of the year from current levels driven by an improving economy, senior vice president in charge of retail banking Stefano Ridwan said Thursday (2/8/07).

Danamon expects its outstanding mortgage loans to increase to Rp3 trillion (\$322.7 million) by the end of the year from about Rp2 trillion currently, Reuters reported.

The bank expects an agreement signed recently to provide credit facilities to the country's 15 major developers to build houses and apartments would help accelerate its expansion in the mortgage loan sector. The amount of the credit facility has not been set yet.

"We believe the improving macroeconomic situation such as relatively low inflation and stronger purchasing power in the last six months have set a very good outlook for the property market," Ridwan said.

Danamon's total loans grew 20% to Rp46.4 trillion as of the end of June from a year ago, the company has said. But Ridwan said growth in its mortgage loans had been largely flat over the period.

State-owned housing bank, Bank Tabungan Negara (BTN), and other major lenders such as Bank Niaga and Bank Mandiri currently have a strong presence in the country's mortgage loan market.

BRI Gets Moody's Rating Review

Moody's Investors Service said it has assigned an 'Aaa' long-term national scale rating with a stable outlook to Bank Rakyat Indonesia (BRI), reflecting the standing of the bank's credit quality relative to its domestic peers, Thomson Financial reported on Friday (3/8/07).

The rating is underpinned by the bank's financial fundamentals, arising from its focus on its traditional core micro-lending and small retail businesses, the ratings agency said.

The ratings agency added that the bank's 'Ba3' foreign currency subordinated debt and 'B2' foreign currency long-term deposit ratings are on review for possible upgrade.

Financially, the bank enjoys the highest net interest margin among its Indonesian peer group, above-industry average asset quality and sufficient capital to absorb the potential risks evident on its balance sheet, Moody's said.

These factors, however, are mitigated by the challenge the bank faces in protecting its market share in the longer term as other banks attempt to penetrate the micro and retail segments, it said.

POWER

PLN Ready to Manage Nuclear Plant

State-owned electricity company PT PLN has reportedly expressed its readiness to become owner of the first nuclear power plant in Indonesia, to be constructed in Muria Peninsula, Central Java, Antara reported on Monday (30/7/07).

President director of PT PLN Eddie Widiono said at the end of last month that his company had the competency to manage the \$3 billion power plant. "We hope that such a nuclear power plant will be managed by a highly-competent company and we have the competency," he told Antara.

Should PLN be included in the nuclear power plant project, it would certainly reduce the risk and the production cost would also be lower, he said.

However, Widiono stressed that at present PLN was still emphasizing the importance of the presence and use of the nuclear power plant to the people living in the vicinity of the designated area.

OIL & GAS

Indonesia Considers 50-50 Oil Split

Indonesia may give a 50-50 oil production split to investors drilling in deep sea areas in an effort to boost reserves, a senior mines and energy official said on Monday (30/7/07).

Indonesia has been offering new exploration rights and financial incentives for oilfields in a bid to stem a steady decline in production as the country has failed to tap new oilfields fast enough to meet domestic demand.

Some deep areas have a 35% production split for investors and 65% for the government but investors say this is not conducive.

"There are many deep water areas that have not been explored. We need to give new incentives so investors are encouraged to explore in those areas," Reuters quoted Director General of Oil and Gas, Luluk Sumiarso, as telling reporters.

"We will carefully evaluate giving a better split. We are considering whether the government will still benefit if we give investors a 50-50 split," he added.

Indonesia says it has 8.6 billion barrels of proven and potential oil reserves and about 182 trillion cubic feet of natural gas reserves.

Govt. Wants Alternative Funds for Tangguh

The government has instructed the Tangguh gas consortium to seek alternative financiers for a \$880 million loan for the project as a deal with Chinese bankers appears to have failed, a government official said Tuesday (31/7/07).

Eddy Purwanto, deputy chairman for Finance and Marketing at upstream oil and gas regulator BP Migas, said the consortium is expected to secure the loan in October.

Last year, the project last year got loans totaling \$2.6 billion from a consortium of international banks at an interest rate of 0.25 basis point above the London Interbank Offered Rate. "This is quite a low interest, and we expect the remaining \$880 million loan will also carry an interest around the same level," Dow Jones quoted Purwanto as telling reporters.

A consortium led by BP Plc is developing the \$6.5 billion natural gas liquefaction project in Papua. The plant is due to start operation in 2008.

Govt. Urged To Monitor Oil, Gas Cost Recovery

The government must increase its monitoring of oil and gas production sharing contracts to rationalize expenses that contractors can claim as cost recovery, *Platts Commodity News* reported.

Inspector General for Energy and Mines Suryantoro said Thursday (2/8/07) that one of the recommendations proposed by a committee on cost recovery set up by the government was to improve efficiency in the implementation of the production sharing contract as well as cost recovery. He did not elaborate how this was to be achieved.

Under Indonesia's production sharing contract system, after the contractor recovers costs, the remaining output -- the profit -- is split between the government and the contractor in a predetermined ratio, typically 85:15 for oil and 70:30 for gas.

As an incentive to upstream investors, the government has allowed recovery of some expenses incurred during the exploration phase, though these can be claimed only after the start of commercial production.

BP Migas to Recommend Chevron's Gas Plan

Upstream regulator BPMigas said Thursday (2/7/07) it will recommend the government approve Chevron's development plan to produce 800 million cu ft/d of gas by 2010-2013 from the company's five deepwater gas fields offshore East Kalimantan, the regulator's chairman, Kardaya Warnika, said.

"We will recommend to the minister to approve the plan, as it...will increase our gas production," *Platts Commodity News* quoted him as saying.

Separately Suwito Anggoro, the president director of Chevron Pacific Indonesia, confirmed Thursday that the company has submitted a development plan for offshore East Kalimantan, including the Gehem and Gendalo gas fields, to BP Migas. He did not give further details.

The Sadewa field in the East Kalimantan PSC is now estimated to contain gas reserves of around 50 billion cu ft to 60 Bcu, far below the original estimate of 500 Bcf to 600 Bcf, planning deputy chief of BP Migas Achmad Luthfi has said.

Chevron plans to invest at least \$6 billion to develop its deepwater areas in Indonesia's Makassar Strait in East Kalimantan until 2012, the company has said.

PGN Starts Using New Sumatra Pipeline

Gas distributor PT PGN has started using its new pipeline linking Sumatra and Java, the company said Monday (30/7/07).

PGN's corporate secretary Widyatmiko Bapang said in a written statement to Thomson Financial that the new pipeline would increase the volume of gas that it takes from the province of South Sumatra for its distribution network in the province of West Java to around 150-177 million standard cubic feet per day in August from 60 million at present.

He said the gas would be distributed to 160 buyers here and in the towns of Bekasi, Karawang and Bogor.

MINING

Inco to Build New Nickel Smelters

PT International Nickel Indonesia (Inco) said it will build two nickel processing plants with an investment of \$2.5 billion, Antara reported on Friday (3/7/07).

The factories will be built in Soroako in South Sulawesi and Pomalaa in Southeast Sulawesi, where the subsidiary of Canada's Inco Limited has large nickel mines.

PT Inco President Arief Siregar said construction of the new plants is needed to meet an increase in its nickel production estimated to reach 200 million pounds in 2010 from around 160 million pounds this year.

For that purpose PT Inco has planned to build a new hydroelectric power plant with an investment of \$285 million to increase its power supplying capacity to 365 MW to support the operation of its smelters.

The company expects to produce 165 million pounds of nickel in matte this year, a 4.5% increase from last year's 157.9 million pounds.

Antam to Restart FeNi III Smelter in September

PT Aneka Tambang (Antam) said it will restart the furnace at its FeNi III smelter in September after completing repairs following a metal leak in June, *Metal Bulletin News* reported on Thursday (2/8/07).

No schedule was given for the ramp up to full power load as Antam will increase the load only if the furnace is stable and running well, it said.

The leak that shut down the furnace lasted one and a half hours and damaged two waffled coolers nearby as well as the refractory bricks surrounding the coolers.

Antam was forced to lower its 2007 production target for nickel contained in ferronickel to 16,000 tons from 20,000 tons as a result of the accident.

The company said it may be able to supplement its production volume by 400-2,000 tons depending on the outcome of negotiations for third party toll smelting arrangements.

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