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REPUBLIC OF INDONESIA

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POLITICS

Activists laud Munir murder arrest

Human rights activists on Friday lauded the detention of former State Intelligence Agency (BIN) deputy chief Muchdi Purwopranjono over the murder of Munir Said Thalib four years ago and urged authorities to cast their net wider, Australian Associated Press reported.

"We hope prosecutors can make a dossier which can help the case to be developed further, as there are more actors mentioned in the previous court that might be responsible for the murder," said Choirul Anam, a rights activist from Action Committee in Solidarity for Munir.

Munir's widow Suciwati also urged authorities to make further arrests. "As a first step, we have to appreciate the police's courage," she said

Usman Hamid of the Commission for Missing Persons and Victims of Violence (Kontras) said the detention of the former senior official could be a sign of better law enforcement in Indonesia.

He called on authorities to dig further into the role of BIN's head at the time of the murder, saying previous court evidence showed a "legally strong suspicion of conspiracy" and to ensure it was free of corruption.

The probe was a major breakthrough in the probe into the killing and was the first formal acknowledgment by authorities that the powerful BIN may have been involved. Fellow activists have long blamed intelligence agents for the murder.

National Police spokesman Abubakar Nataprawira said Purwopranjono – who surrendered to authorities Thursday night and was interrogated at length Friday - could face premeditated murder charges, which carry the death sentence.

"We caught Purwopranjono based on the last witnesses, it all leads to him," Nataprawira said. "(But) the case is still developing. When the questioning is finished, the dossier will be sent to the Attorney General's Office," he added.

The spokesman said Purwopranjono had been declared a suspect in the murder, a formal step in criminal investigations, which means police believe they have enough evidence to bring the case to trial.

Purwoprandjono's lawyer Zaenal Ma'arif said his client would apply for bail on Monday "with the reason that no soldier would run and destroy evidence".

Munir died of arsenic poisoning during a flight from Singapore to the Netherlands in 2004.

According to Agence France-Presse, Purwoprandjono's name was mentioned in a written statement issued by BIN agent Budi Santoso that was read out in court during the trial of Garuda pilot Pollycarpus Budihari Priyanto, now serving a 20-year jail sentence for the premeditated murder of Munir.

In his written testimony, Santoso said based on Purwoprandjono's orders, he gave Priyanto Rp10 million on June 14, 2004, and another Rp3-4 million when Priyanto was under investigation in connection with Munir's murder. Priyanto repeatedly claimed he did not know Purwoprandjono.

Initial evidence indicated that Munir was poisoned on the flight between Jakarta and Singapore. However, the latest evidence suggests Munir was poisoned at Singapore's Changi Airport.

A former BIN deputy chief M As'ad has also been linked to the high-profile murder. As'ad allegedly assigned Priyanto as a security officer on the flight between Jakarta and Amsterdam.

Megawati begins search for running mate

Megawati Sukarnoputri, a leading presidential candidate for the 2009 elections, has started looking for a running mate.

Pramono Anung, general secretary of the Indonesian Democratic Party of Struggle's (PDI-P) central leadership board, said on Saturday the list of potential running mates has been shortened to five, Okezone reported.

Anung said the names have always garnered many votes in the party's internal polls. The names reportedly include National Police chief Gen. Sutanto, Yogyakarta Governor Sri Sultan Hamengkubuwono X and chairman of the People's Consultative Assembly Hidayat Nur Wahid.

Kompas daily said the list consists of the Sultan, Wahid, Kalla and head of the Hanura Party, former Armed Forces Commander Wiranto, and former Golkar Party chairman Akbar Tanjung.

Other names mentioned include another former general, Prabowo Subianto, and Muhammadiyah central board chairman Din Syamsuddin, who has helped PDI-P establish a Muslim branch.

Anung said the party has yet to officially offer the post for the candidates. "But we are optimistic they will say yes if offered," he added.

Last week, a survey conducted by the National Survey Institute (LSN) showed that President Yudhoyono and Sri Sultan Hamengkubuwono X are perceived as the most popular candidate pair for president and vice president.

The survey was conducted in May 2008 in all 33 provinces with a total of 1,225 respondents.

Indonesia elects new members of the House of Representatives in April next year. The form of a bill on the presidential elections is still being discussed by the House, but it is likely that the right to nominate a candidate for president will be limited to parties or coalitions with at least 15% of seats in the House.

The presidential election will be held later in the year, with possibly two rounds of voting, as in the 2004 polls.

REGIONS

Farming group urges help to end global food crisis

An international farming group on Saturday urged countries to step up domestic food production by providing more facilities to small-scale farmers in a bid to help end the global food crisis, Agence France-Presse reported.

La Via Campesina, which represents millions of small-scale farmers around the world, gathered in Jakarta last week for a five-day international conference on the rights of agricultural producers.

"The solution to the global food crisis is to strengthen the domestic market and the capacity of family farmers to produce food for their own needs," Paul Nicholson of La Via Campesina told reporters at a press conference.

Galloping food prices and food shortages have sparked protests and even riots in some countries and export limits in others, hurting developing nations where food costs consume the lion's share of household income.

"The current food crisis is the outcome of extensive farming, food chains controlled by transnational companies and food market liberalization," he said.

"Food trade has destroyed the capacity of food production locally. Today, with the world food crisis, there's no cheap food and that means a country has to return to producing food for their own need," he added.

The group recently criticized UN chief Ban Ki-moon over his calls for ending food export bans, saying the "logic of profit" was ruining farmers' lives.

Ban has urged key producer nations such as Brazil and Egypt to end the bans in the face of soaring global food prices, saying it had reduced supplies and contributed to price hikes. Argentina, Brazil, Vietnam, India and Egypt have all imposed limitations on the export of certain produce in order to ensure domestic food security.

"We're not saying no to trade, but we have to prioritize domestic food production," Nicholson said.

Bali airport safe for US airlines

Ngurah Rai International Airport in Bali has been approved for use by US airlines in a second audit by the Transportation Security Administration (TSA), Antara reported on Friday.

The TSA decided on its first audit in 2005 that Ngurah Rai did not fulfill security qualifications as it was found to be lacking in equipment, infrastructure and personnel.

"During the process, the US government has released a travel warning after Bali bombing in 2005," said PT Angkasa Pura I director Bambang Darwoto. "Continental Airlines from the US is currently serving the Guam-Ngurah Rai route three times a week and the number of US tourists to Bali has increased."

Soekarno-Hatta International Airport in Jakarta has been declared safe by the International Civil Aviation Organization (ICAO), which routinely conducts audit on the airport.

Aceh needs peace, not new provinces: Officials

Proposals for the establishment of two new provinces in Nanggroe Aceh Darussalam have met with criticism, after Vice President Jusuf Kalla and the province's governor stated that the demands would not be met, *Kompas* reported.

Kalla and Governor Irwandi Yusuf said Tuesday that proposals for the new provinces of Aceh Leuser Antara and South Aceh Barat will not be approved.

"We have concluded that the creation of the proposed new provinces breaches current law and will not happen," said Yusuf.

Elfian Effendi, executive director of Greenomics Indonesia, an independent policy development institute, and Nasir Djamil, a provincial legislator from the Prosperous Justice Party, on Wednesday said the proposals were unrealistic, and called instead for increased sustainable development and security, *The Jakarta Post* said.

New Tangerang region closer to reality

Home Minister Mardiyanto has ordered Banten Governor Ratu Atut Chosiah and Tangerang Regent Ismet Iskandar to prepare a meeting to discuss setting up the new South Tangerang municipality, said a report from *The Jakarta Post*.

"We highly appreciate the minister's step. This is new step forward that will accelerate the establishment of South Tangerang municipality," Iskandar said.

Komarudin, an official with the administration, said the government would seek input from the provincial and regency administrations on the establishment of the new region. The information must first be verified at the ministry's regional autonomy council.

The idea of establishing South Tangerang was started in 1992 by residents of Ciputat, Pamulang, Serpong and Pondok Area, all bordering Jakarta. About 1.2 million people live in an area that has become an industrial, commercial and residential zone.

Meanwhile, Mardiyanto has inaugurated six new regencies in Papua, a ministry official said in a report from Antara.

The new regencies are Dogiyai, Central Memberamo, Yalimo, Lanny, Nduga and Puncak.

According to the Director General of Regional Autonomy at the Home Affairs Ministry, Saut Situmorang, formation of Dogiyai regency is based on the request of residents from 17 districts in Nabire regency.

"The move is an attempt to escalate development in the mountainous Central Papua area, especially in Nabire," Situmorang added.

'Inline skating' officers to overcome Jakarta traffic jams

The Jakarta Police are rolling out a new weapon in the battle against gridlock: traffic police on inline skates.

A report from The Associated Press said it is hoped officers will be able to reach traffic jams in the capital quicker than by car or motorbike. Once there, they will be able to direct vehicles to get the city's traffic flow moving again.

The city's top traffic cop Dua Sutirto said the force had hired a professional inline skater to teach the team of 20 officers before the team is deployed on July 1. "Most of the men are young and fast," Sutirto was quoted as saying.

Jakarta suffers from some of the worst traffic jams in Asia and it remains to be seen what effect — if any — the inline skating police team will have on the problem.

Jakarta is slowly rolling out a network of dedicated bus lanes, but it is still desperately short of buses. Other mass transit systems have yet to materialize, with some of them stuck firm in the 'too hard' basket.

Traffic police in Jakarta have a reputation for laziness and often demand bribes from motorists to ignore minor or imaginary violations. The city's 12 million residents generally hold them in low regard.

ECONOMY

RI ranks high in attracting trade

Indonesia is good at attracting international trade with its relatively competitive tariff barriers, but border controls and distribution channels continue to create obstacles, the World Economic Forum (WEF) says, according to a report in *The Jakarta Post*.

The Enabling Trade Index in the 2008 Global Trade Report published Wednesday by the WEF compares 118 countries' openness and international trade capabilities.

Overall, Indonesia ranked 47th among the 118 countries. Hong Kong topped the list, followed by Singapore, Sweden, Norway and Canada. Malaysia ranked 29th, China 48, Thailand 52 and Vietnam 91.

Indonesia scored well on trade policies, in which it was ranked in the top 22 countries, ahead of Britain, Australia, Italy, Singapore and Malaysia. It was ranked 34th for good regulatory environment, a sector that included ease of hire of foreign labor, ease of foreign ownership and regulations encouraging foreign investment.

Overall, trade was well supported by regulatory openness and a competitive business environment, but poor infrastructure and difficult processes at borders lost the country points, the report stated. It also ranked Indonesia at 34th in this category.

Indonesia's low non-tariff barriers and moderate tariff barriers allowed relatively open market access for foreign goods, although customs and domestic transport were complicated.

Indonesia has competitive trade connectivity, due to its location, competitive shipping costs and logistics companies, the report added.

The continuing improvement of Indonesia's overseas image also received a boost from a successful bond sale on Wednesday. It sold \$2.2 billion in bonds, a new record, on the international market, above the planned \$1.5 billion float, with the issue three times over-subscribed, Reuters reported.

The government offered premiums of up to 8.154%, with analysts stating that the rates represented the higher cost of money globally because of high oil price.

Bank Indonesia Senior Deputy Governor Miranda Goeltom said that while policy makers will probably keep raising interest rates to slow inflation led by energy costs, they won't move at a faster pace, Bloomberg reported.

The central bank increased its key rate by a quarter percentage point in May and again on June 5 to the current rate of 8.5%. Year-end inflation is forecast at around 12.7%.

"There is certainly some indication that we have to respond to the inflation expectations toward the end of the year, although we don't think it's going to accelerate from what we have done," Goeltom said in an interview in Canada.

"There are quite strong indications that we still have to move a little bit more as the inflationary pressures keep building up," Goeltom said in a speech.

Muhammad Lutfi, head of the Indonesian Investment Coordinating Board, said PT Krakatau Steel was in talks with AcelorMittal and Tata Steel Ltd. on a new plant expected to cost around \$3 billion in which the foreign investor would have the majority of shares.

Krakatau, owned by the government, plans to form a joint venture to build a 2.5 million metric ton-capacity plant next to its existing facility,

There was also a commitment to major investment in two nickel mines in a deal signed between BHP Billiton and state-owned PT Aneka Tambang.

One of the mines is located on Gag Island off the western tip of Papua, and the other in Halmahera in North Maluku province. While BHP declined to comment on the value of the projects, estimates ran as high as \$4.5 billion.

Australian-based Orica, the world's largest explosive manufacturer, said it was going ahead with a plant valued at \$550 million in East Kalimantan.

The rupiah had its biggest weekly gain in more than two months as measures to cool inflation helped restore investor confidence, Bloomberg said.

The agency noted that the currency is the second-best performer in June behind China's yuan after the government sold the new record amount of dollar-denominated bonds.

BUSINESS BRIEFS

MACROECONOMY

Govt. raises \$2.2 billion in offshore bonds

Indonesia sold \$2.2 billion in bonds on the international market on Wednesday, winning a positive response in the secondary market with high interest rates, Reuters reported from Hong Kong.

The government expanded the sale of bonds in three existing series by nearly 50% in response to strong demand for the issue.

The transaction topped Indonesia's \$2 billion debt sale in January, despite higher inflation.

The bonds rose by about 0.5-0.75 of a point in secondary market trade. The offer was three times oversubscribed after Indonesia offered yields that were higher than in its January deal and above what the bonds traded at before the new sale.

Analysts added that problems being experienced by the Indonesian economy were part of a global condition.

"Inflation and increasing fiscal deficits are happening everywhere, so Indonesia is not really the underperformer compared to other countries," said Clifford Lau, a fund manager at Pramerica Investment Management in Singapore.

The government offered premiums of up to 8.154%.

Indonesia will use the money to help plug a budget deficit seen at 1.8% of gross domestic product this year, pushed up by record high oil prices, even after it cut subsidies and raised fuel prices by an average 29% in May.

Meanwhile the government aims to raise Rp3 trillion via an auction of rupiah-denominated treasury bills and treasury bonds this week, the Finance Ministry said.

Govt. looks to boost GDP to nearly \$565 billion

The government and the House of Representatives (DPR) are looking into the chances of raising the country's gross domestic product (GDP) to Rp5,275.9 trillion by relying on exports and investments, Reuters reported.

"With the GDP reaching that amount, our per capita GDP has actually exceeded \$2,700. But it seems that we were still at the level of middle income countries," Syahrial Loetan, secretary of the state minister for national development planning/chief secretary of the National Development Planning Agency (Bappenas), said.

Hopefully, non-oil/non-gas exports would be the main foreign exchange earner while natural resources would be the main factor to attract investments next year, he said.

"But we must keep in mind that the improving economy will make the people's consumption stronger," he said.

The Rp5,275.9 trillion GDP could be achieved if the economy grew by 6.2% and the inflation rate stayed at 6.5%, he said.

After all, being at the level of middle income countries would make it difficult for Indonesia to obtain very soft loans, he said.

"Today, almost all loans are available only under commercial schemes," he said.

According to official data, the country's macro-assumptions for the year up to May 2008 show the economic growth rate was recorded at 6.3%, with inflation at 10.4%.

Bappenas to hold \$3.7B bids for infrastructure

The National Development Planning Agency (Bappenas) will put 13 projects worth \$3.7 billion out to tender under a government-private partnership scheme, Asia Pulse reported.

"Feasibility studies on all the projects have been completed and their pre-qualifications are expected to be fulfilled in November," said Bastari Pandji Indra, director of government-private cooperation at the Office of the State Minister for National Planning.

Two of the projects involve state electricity company PT PLN and the Bandung city administration, he said.

The other projects included construction of toll roads in Sumatra, Java, Bali and Sulawesi with the Toll Road Operating Board (BPJT) as the executor of the projects, he said.

Indra said the roads are as follows: Medan-Binjai turnpike worth \$118.81 million, Palembang-Indralaya worth \$114.45 million, Tegineneng-Babatan worth \$296.39 million, Pandaan-Malang worth \$279.97 million, Cileunyi-Sumedang-Dawuan worth \$428.86 million, Medan-Kualanamu-Tebing Tinggi worth \$477.37 million, Pasirkoja-Soreang worth \$111.03 million, Sukabumi-Ciranjang worth \$201.72 million, Manado-Bitung \$610.01 million, Pekanbaru-Dumai \$918.06 million, and Serangan-Tanjung Bena worth \$161.89 million."

The PLN project is a coal-fired power plant worth \$1.2 billion in Central Java, he said.

Govt. to sell Rp15T of Islamic bonds

The government plans to sell a total of Rp15 trillion (\$1.6 billion) of Islamic bonds by October, the nation's first sale of the securities, a Finance Ministry official said, Bloomberg reported.

The government plans to sell debt based on shariah law in the domestic market in August and in the international market two months later, said Rahmat Waluyanto, Director General of the ministry's Debt Management office.

"Based on the response we had from foreign investors so far, they show interest in the Islamic bonds," Waluyanto said.

Indonesia plans to diversify its funding sources after selling a record \$2.2 billion in global bonds to plug a widening budget deficit this year.

The government is targeting Middle East investors as Muslims are banned from receiving or paying interest.

In April, the parliament passed a law on Islamic debt, allowing the government to sell Islamic bonds or sukuks.

INVESTMENT

Jan-May actual investment jumps 80.9%

Actual investment in the first five months to May surged 80.9% to Rp93.9 trillion (\$10.4 billion) from Rp51.9 trillion a year ago, *Bisnis Indonesia* reported on Tuesday, citing Investment Coordinating Board (BKPM) chairman Muhammad Lutfi.

Of the amount, actual foreign direct investment (FDI) jumped 164.1% to Rp88.02 trillion from Rp33.3 trillion in the same period last year, Thomson Financial reported.

However, actual domestic investment fell 68.2% to Rp5.9 trillion from Rp18.6 trillion a year ago.

He said the largest actual FDI was in transportation, storage and communication, which totaled \$6.55 billion.

Orica approves Bontang ammonium nitrate plant

Orica Ltd. said it has approved the development of a \$550 million ammonium nitrate plant in East Kalimantan, Dow Jones reported.

Orica, the world's largest producer of explosives, said the investment would be made through its joint venture company PT Kaltim Nitrate Indonesia and that the plant would produce 300,000 metric tons of ammonium nitrate a year.

"The establishment of the plant complements Orica's existing strong market position as well as enabling Orica to participate in and support the further growth of the Indonesian mining industry," Orica said in a statement.

Charoen eyes E. Indonesia, to build new feed mill

PT Charoen Pokphand Indonesia (CPIN), a publicly listed animal feed and processed chicken manufacturer, will spend Rp350 billion (\$37.5 million) in the remainder of this year to expand sales in east Indonesia, *The Jakarta Post* reported.

Vice president Thomas Effendy said the firm planned to build a new feed mill in Lampung, South Sumatra, to compliment another under construction in Makassar, South Sulawesi.

"The feed mill in Makassar will cost Rp54 billion and the one in Lampung, Rp30 billion. Both will have a capacity of 300,000 tons per year," Effendy said after a shareholders meeting.

Effendy said 60% of the funds would come from the company's own cash flow and the remainder from loans.

The company has already received a chunk of a total \$125 million in syndicated loans led by Citibank, he said.

In 2007, the company bred 480 million chicks and produced 28,000 tons of processed chicken.

"We also want to increase our feed production capacity to 2.3 million tons this year from 2 million tons last year," he said.

The investments will support the company's effort to expand sales in east Indonesia to offset an expected reduction in revenue from Java due to the recent fuel price increases, he said.

The company aims to increase its revenue by nearly 40% to Rp12 trillion this year, from Rp8.7 trillion last year.

China Nickel Resource to start operations in 2009

China Nickel Resources Holding Co., a nickel-based steelmaker, said its steel factory in Indonesia will start production in late 2009, with an initial annual capacity of one million metric tons, Dow Jones reported.

China Nickel Resources, formerly known as China Special Steel, will export the output from the Indonesia unit to Southeast Asia and the Middle East, Dong Shutong, chairman, said.

Last May, the company acquired for \$350 million an ore sourcing company called SEA Mineral, which had a 14-year offtake agreement with an Indonesian nickel-containing iron ore mine in Kalimantan until 2021.

The deal gives China Nickel Resources access to 70 million tons of ore with 1% nickel.

STATE CONCERNS

Rice stocks biggest in 10 years

Indonesia has stockpiled 1.8 million tons of rice as it experiences the biggest rice stockpile in the last 10 years, State Minister for National Development Planning Paskah Suzetta said Monday.

"The global food crisis seems to cause no major problem to us because the government has stockpiled 1.8 million tons of rice, the biggest stock in the last 10 years," he said.

"What appears to be the biggest threat is the surging oil price... which causes instability in the state budget," the minister said.

According to a government estimate, national rice production is expected to increase by some 6% to 35 million tons in 2008 from last year's 33 million tons.

ASEAN plans textile production hub

Association of Southeast Asian Nations (ASEAN) textile producers have come together to create a blueprint for a regional global production hub to compete with China and India, *The Jakarta Post* reported.

The blueprint, under the umbrella of the ASEAN Federation of Textile Industries (AFTEX), is to be finished by the end of July.

"It would be a step towards improving the region's competitiveness against Asia's rising economies such as China and India," AFTEX chairman Lee Quoc An of Vietnam said.

Speaking on the sidelines of a meeting with regional textile industry representatives in Jakarta, Quoc An said ASEAN must be able to integrate its supply chain links, foster regional brands and promote its fashion industry.

"We are currently identifying which country is good at what. For example, Vietnam is very good at making garments, but Vietnam doesn't have the fabrics.

"Indonesia on the other hand has excellent fabrics. If we cooperate, both our textile industries will be stronger," Quoc An said.

ASEAN's textile industry is under pressure from the rising level of illegal imports. In Indonesia, illegal imports account for 70.6% of the country's textile market.

Govt. to require plants to be built in estates

The government will require manufacturers to build new plants inside industrial estates to better control their environmental impact, Industry Minister Fahmi Idris said, Bloomberg reported.

The government will issue a ruling within one month, Idris said. This will also make it easy for manufacturers to "get supply of electricity, to have adequate access to other infrastructure like roads, and to face less bureaucracy in operating permits," he said.

Oil and gas factories are excluded from the ruling, Idris said.

Indonesia has about 86 industrial estates in 13 of its 33 provinces, housing 6,350 factories, Idris said. This compares with 78 estates and 5,140 factories in 2004.

About 71% of Indonesia's exports are from industrial estates.

Soybean production may rise 63% in 2009

Soybean production in Indonesia may increase 63% next year, more than previously expected, as planting increases, Bloomberg reported.

The harvest may rise to 1.5 million metric tons, Agriculture Minister Anton Apriyantono, said. That compares with his January 21 estimate for production to reach 1.2 million tons from 920,000 tons this year.

Indonesians consume about 2 million tons of soybeans annually. Tempe and tofu, derived from soybeans and eaten mainly with rice, are key sources of protein for the country's 235 million people.

Apriyantono maintained a forecast for rice output of 64 million tons next year compared with 61 million tons this year.

Corn production may climb to 18 million tons in 2009, also unchanged from the previous estimate, he said.

"The increase in production will be achieved through distribution of free seeds, subsidized fertilizers and area expansion," Apriyantono said at a parliamentary hearing.

The government plans to allocate Rp10.74 trillion (\$1.16 billion) next year for subsidies to lower fertilizer prices, and Rp904 billion in seed subsidies, Apriyantono said. He didn't give this year's figures.

Increased output may reduce the Southeast Asian country's imports of soybean to 500,000 tons next year, Sutarto Alimoeso, Director General for Food Crops at the Agriculture Ministry, said.

Output may be enough to meet consumption in 2011, he said. The country imported 1.3 million tons of soybeans last year to supplement output of about 600,000 tons.

SOEs

Krakatau seeks \$3 billion investment for steel plant

PT Krakatau Steel, in talks with AcelorMittal and Tata Steel Ltd., is seeking \$3 billion from a partnership to build a second plant to meet rising demand in the country, Bloomberg reported.

Krakatau, owned by the government, plans to form a joint venture to build a 2.5 million metric ton-capacity plant next to its existing facility, Muhammad Lutfi, head of the Indonesian Investment Coordinating Board, said.

Global steelmakers are seeking to expand in Indonesia as the lowest interest rates in three years boost demand for houses and cars. The new plant would help Krakatau double output capacity.

Interested parties, which may also include Essar Steel Ltd. and Australia's BlueScope Steel Ltd., are expected to submit bids before the end of the year, Lutfi said. The overseas partner will control a majority stake in the joint venture, he said.

"We want to develop our automotive industry, we want to develop a lot of things from steel," said Lutfi.

Surging prices of iron ore, a raw material for steel products, mean Krakatau has to expand into higher-value products to improve margins. "We want to industrialize Krakatau Steel. We need to do this," he said.

The Cilegon-based company may also sell a 5% stake in an initial public offering, Lutfi said, without giving a time frame.

The share sale is "minimal" because it is a way for the government to set a value for the company, he added, declining to say if it will take place before the strategic investment.

Demand for steel in Indonesia may rise 10% this year, following last year's 12% gain to 7.1 million tons, according to a June 10 estimate from Jati Santiono, senior technical manager at the Southeast Asia Iron & Steel Institute.

Flag carrier teams up with Turkish Airlines

Flag carrier Garuda Indonesia has forged a partnership with Turkish Airlines to expand their market network in the Middle East and Southeast Asia, Xinhua reported.

Under an agreement signed in Bali, the two companies will jointly launch promotions to boost customers between Turkey and Indonesia.

The agreement signed by Garuda president Emirsyah Satar and Turkish Airlines president Candan Karlitekin also calls for cooperation in plane maintenance and overhaul.

Since there are no direct flights between Indonesia and Turkey, air passengers heading for Indonesia will use Turkish Airlines planes and switch to Garuda planes during the transit in Singapore.

"This cooperation has great potential to boost passenger traffic between the two countries because it offers unique and valuable tourist attractions," Emirsyah said.

All Jakarta to be wi-fi by year end: Telkom

Publicly-listed telecommunication firm PT Telkom said June 15 it would connect all public places in Jakarta with wireless broadband by the end of this year.

"We expect all strategic locations in Jakarta to be covered by our hotspots with a bandwidth capacity of 1 Mbps by the end of 2008," general manager of Telkom Region II Adeng Ahmad said, adding that the ambitious program was named Jakarta Cyber City.

The wireless broadband hotspots will be located in 180 public places across the capital such as malls, cafes, museums, city gardens, hotels and office buildings, he said.

The first hotspot is located at the National Monument.

PRIVATE SECTOR

May car, motorcycle sales up, bikes up 45%

The automotive and motorcycle markets retained their vigor during May, with solid results in both segments of the market, Thomson Financial reported.

Motorcycle sales in May rose 45% from a year ago led by Honda bikes, a report from the Indonesian Motorcycle Industry Association (AISI) showed Monday.

Nationwide sales reached 547,453 bikes in May against 376,406 a year ago while the figure was slightly below the April sales of 548,332.

The report shows 251,246 Honda bikes were sold in May, up from 169,859 a year ago.

Honda is produced and sold by PT Astra Honda Motor, a 50-50 joint venture between PT Astra International and Honda Motor Co.

Honda's main competitor was Yamaha, with sales of 222,367 bikes in May compared with 168,367 a year ago.

Meanwhile PT Astra International said Monday it sold 25,555 new cars in May, up 30% from a year ago but down from sales in April of 27,221 units.

Lafarge to restart Aceh cement plant in 2009

The Indonesian unit of the world's biggest cement maker, Lafarge, expects to resume production next year at a plant almost completely destroyed by the 2004 tsunami, a senior executive said, Reuters reported.

About 80% of PT Semen Andalas Indonesia's facilities at Lhoknga in Aceh were destroyed when the Boxing Day tsunami struck the province in December 2004.

The firm has invested more than \$150 million on rebuilding the plant and building a new 30-MW coal-fired power plant to meet the facility's power needs.

The firm's president director, Marcel Cobuz, said the plant will have a production capacity of 1.6 million tons of cement per year, up from 1.3 million before the tsunami.

Isidoro Miranda, group executive vice president, said, the company expected the market to grow by 6% annually.

Indonesia's domestic cement consumption rose 6.6% last year to 34.17 million tons, higher than an industry forecast of around 5%, helped by lower interest rates as well as construction of infrastructure projects.

Summarecon plans Rp300 billion bonds

Property developer PT Summarecon Agung said it plans to sell Rp300 billion of bonds later this month to raise funds to buy more land in North Jakarta and finance housing construction, Bloomberg reported.

Summarecon will offer Rp100 billion of five-year conventional bonds with a coupon of 14.1%, the company said in a prospectus published in *Bisnis Indonesia* Monday.

It will also offer Rp200 billion of five-year Islamic bonds using the Ijarah sale, which involves leasing out an asset or equipment at an agreed rental fee and predetermined lease period.

PT Mega Capital Indonesia, PT Nikko Securities Indonesia and PT Optima Kharya Capital Securities will help the company to sell the Islamic bonds.

PT Kresna Graha Sekurindo and PT Andalan Artha Advisindo Sekuritas will help sell the conventional bond.

The bonds are not rated by Standard & Poor's or by Moody's Investors Service.

Berlian gets Rp900 billion in loans

PT Berlian Laju Tanker, Indonesia's biggest shipping company by market value, received Rp900 billion in loans, *Bisnis Indonesia* said Monday, Bloomberg reported.

The company will borrow Rp350 billion from PT Bank Mandiri, Rp150 billion from PT Bank Central Asia and Rp400 billion from PT Bank Eksekutif Internasional, the report said, citing Krisnanto Tedjaprawira, Berlian's general manager for finance.

The company, which postponed its planned Rp400 billion bond sale, plans to use the loans for working capital, the newspaper said.

BANKS

House passes shariah banking bill

The House of Representatives passed the shariah banking bill on Tuesday to ensure legal certainty in the running of the country's shariah banking industry, Antara reported.

The passage of the bill came at a plenary session led by House Speaker Agung Laksono.

Nine House factions favored the passage of the bill into law while one, the Peace and Prosperity Party (PDS), rejected it.

Indonesian Democratic Party of Struggle (PDI-P) faction spokesman Tukidjo expressed hope that the shariah banking industry would thrive as an alternative to conventional banking and eventually boost the real sector.

"That's why the shariah banking industry needs special regulations that accommodate both Muslims' and non-Muslims' interests considering the industry's universal nature," he said.

The shariah banking industry in the world's largest Muslim country had previously been based on Bank Indonesia's regulations, he said.

Religious Affairs Minister Maftuh Basyuni added that the government and Bank Indonesia would soon issue regulations to implement the law.

Mandiri gives MSMEs Rp36.6B in loans

Bank Mandiri signed cooperation agreements with three firms to provide low-interest loans worth Rp36.6 billion for micro, small and medium enterprises (MSMEs) under their supervision, The Jakarta Post reported.

The firms are PT Frisian Flag Indonesia, PT Indocement Tunggal Perkasa and PT Sinjaga Santika Sport.

Mandiri's micro and retail banking director, Budi G. Sadikin, said, "of these loans, Rp28 billion will be channeled to 1,500 dairy farmers supervised by Frisian Flag in Bandung (West Java), Boyolali (Central Java) and Blitar (East Java)".

Sadikin said another Rp4.5 billion would be allocated for MSMEs supervised by Indocement in Cirebon and Bogor, West Java and Tarjun, Kalimantan.

"And the remaining Rp4.13 billion will be allocated to support 500 soccer ball producers in Majalengka, West Java," he said.

Mandiri also set aside Rp160 billion to support the development of SMEs under its Corporate Social Responsibility programs, Sadikin added.

Qatar banks may buy stakes in BNI

Qatar Islamic Bank and two Middle Eastern rivals may buy stakes in PT Bank Negara Indonesia (BNI), *Investor Daily Indonesia* reported citing Gatot Suwondo, president director of BNI.

The two other banks interested in a Bank Negara stake of the state-owned bank are Qatar National Bank SAQ and Qatar International Islamic Bank, the daily cited Suwondo as saying.

POWER

Cost of power subsidies to be shared with regions

Local governments will be made to share the cost of the electricity subsidy under the upcoming electricity law, an official says, *The Jakarta Post* reported.

Ministry, J. Purwono, Director General for Electricity and Energy Utilization at the Energy and Mineral Resources, said that starting in 2010 the central government could impose regional electricity rates.

Provincial government authorities and regencies would be made to share the cost of power subsidies, which currently are paid for entirely by central government.

"Under the new power rates system, local governments will be allowed to set different rates from the national ones. They will also be allowed to set lower rates, but if they do they will have to subsidize the gap," Purwono said.

The government's move is part of the central government's strategy to share the burden of the electricity subsidy with local administrations, which now receive windfall profits from soaring oil prices but do not contribute to central government subsidy costs.

Currently, only two areas, Batam in the Riau Islands and Tarakan regency in East Kalimantan, have set regional power rates, as most of their customers are businesses and not households, unlike most areas in the country.

Also under the new power rates system, the government will stop subsidizing household consumers in the upper income bracket and give a subsidy only to households consuming between 450 and 900 watts.

The plan is aimed at reducing the electricity subsidy burden which was originally estimated at about Rp60.3 trillion (\$6.6 billion) this year.

The subsidy cost is expected to increase as high as Rp68 trillion should the oil price stay around the level of \$120 a barrel. The state budget is based on an assumed oil price of \$95 a barrel.

Cirebon Electric looks to JBIC for \$545M

PT Cirebon Electric Power, a subsidiary of PT Indika Energy, is seeking a loan of \$545 million from five foreign banks coordinated by Japan Bank for International Cooperation (JBIC), *Asia Pulse* reported Thursday.

The independent power producer needs the loan to finance the construction of a 660-MW coal-fired power plant, *Bisnis Indonesia* reported.

Finance director of Indika Energy Aziz Arman said the loan is expected to be disbursed in August.

Arman said Cirebon Power has signed an agreement with state-owned electricity company PLN under which PLN will buy electricity to be generated by the power plant.

Indika president M. Arsjad Rasyid said the power plant will cost around \$779 million which will include 30% equity and 70% of loan funds.

PLN to issue bonds valued at \$326M

State-owned electricity company PLN said it will sell bonds valued at Rp3 trillion (\$326 million) in rupiah denomination in the third quarter of this year, *Antara* reported Thursday.

PLN president Fahmi Mochtar said the company needs the fund to finance investment and operations. The company plans to acquire two coal companies to guarantee coal supply for coal-fired power plants under its crash program.

The two coal firms to be acquired are expected to be able to supply 40% of PLN's coal requirement in 2010, *The Jakarta Post* reported.

PLN has a crash program to build coal-fired power plants with a total capacity of 10,000 MW to be completed before 2010.

Mochtar said PLN would need an additional 31.9 million tons of coal per year after the program has been completed.

OIL AND GAS

Govt. entrusts Pertamina with Natuna block

The government has given Pertamina the rights to develop the Natuna gas block in Riau islands province, an executive says, according to a report from Dow Jones.

Pertamina upstream director Karen Agustiawan said Tuesday that the Energy and Mineral Resources Ministry had issued a letter assigning Pertamina to develop the block and to carry out a feasibility study on the site's development.

"Pertamina is currently arranging the study and terms of reference for choosing a partner, an issue which will also be discussed with the ministry," Agustiawan said.

She also said Pertamina had begun a negotiation on the new contract's terms and conditions with the directorate general of oil and gas.

Pertamina finance director Frederick Siahaan said based on the company's early assessment of the project, the company would need \$52 billion in investment to develop the block, which has reserves contaminated by high levels of carbon dioxide, making processing more difficult.

The decision comes after the government in February instructed Pertamina to prepare to take over the development of the gas-rich Natuna block from ExxonMobil Corp., following a deadlock in a negotiation over the US energy giant's contract extension.

Meanwhile, Pertamina says it expects to start crude oil production at the Cepu oil block in December this year at 8,000 barrels per day. The production will be lower than initially targeted due to problems with local inhabitants over access to land, *The Jakarta Post* reported.

"The start-up production will be at 8,000 barrels a day, down from the initial target of 20,000 barrels a day due to problems with land clearance," Pertamina president director Ari Sumarno said.

MINING

BHP signs deal with Antam

BHP Billiton is expanding its activities in Indonesia, signing a joint venture agreement on Tuesday to develop two nickel mines in partnership with state-owned company PT Aneka Tambang (Antam), an investment that could top \$4.5 billion, the *Financial Times* reported.

Development of nickel laterite mines on Gag Island, off West Papua, and North Maluku would be a significant boon for Indonesia's mining sector which, despite its vast resources, has languished amid uncertainty about the introduction of new laws.

Muhammad Lutfi, chairman of the investment coordinating board, said the two companies planned to build a smelter and could spend more than \$4.5 billion on the project.

BHP said it was too early to predict the size of the investment but Marius Kloppers, chief executive, referred to a \$2 billion-plus investment in an "eastern Indonesian facility".

The projects will be developed in Gag Island, off the western coast of Papua, and in Halmahera regency of North Maluku.

BHP is also getting back into coal in Indonesia after selling out of the industry in 2001. Motivated by a tripling in coking coal prices, BHP is building a mine in East Kalimantan and production is expected to start by the end of this year.

Bayan IPO to fund \$118M coal mine expansion

Coal company PT Bayan Resources plans an initial share sale to fund the expansion of its only mine, targeting spending of at least Rp1.1 trillion.

The Jakarta-based company plans to sell 500 million existing shares and 333.33 million new shares, it said in a statement published in *Bisnis Indonesia*. Pricing is yet to be determined.

Bayan plans to expand its coal mine in East Kalimantan using the proceeds, it said in the statement.

The company expects to boost coal output to nine million metric tons this year, from 4.7 million tons in 2007. Desimon, director at PT Trimegah Securities, which is arranging the sale, declined to comment.

Indonesian coal producers including Bayan and PT Adaro Energy are rushing to sell shares to tap investor interest after the price of the fuel surged.

Bumi Resources announces new coal reserves

Coal miner PT Bumi Resources has discovered new reserves in an area held by its unlisted unit, PT Kaltim Prima Coal, in Kalimantan, a company spokesman said, Dow Jones reported.

"The new findings are significant in size and bigger than we announced earlier this month," said Dileep Srivastava, without providing details.

Early this month, Indonesia's largest coal producer by output said its 2008 coal reserves will increase by 32% to 1.84 billion metric tons due to a new discovery in the Pedayak region of Kalimantan.

It said an additional 442 million tons of coal reserves have been discovered.

As of October 1, 2007 Bumi's coal reserves were at 1.402 billion tons.

Timah considers acquisitions in Zambia, Australia

PT Timah, Indonesia's largest tin producer, is considering its first acquisitions overseas, targeting Zambia and Australia, Bloomberg reported.

"We are trying to buy mines, both overseas and local," Corporate Secretary Abrun Abubakar said in a phone interview today. "It's a very preliminary consideration."

Tin futures have almost tripled in the past two years and touched a record in May on concern China, the world's largest producer, will curb shipments, while Indonesia may cap output.

The metal is used in soldering and to make cans.

Timah's stock has more than trebled on the Indonesia stock exchange over the past year, beating the 10% gain in the Jakarta Composite Index.

Timah, which booked record net income of Rp1.78 trillion (\$192 million) last year, has concessions for mining tin, coal, asphalt and nickel in Indonesia.

Bisnis Indonesia, citing finance director Krishna Syarif, reported Timah may borrow more than Rp4 trillion from banks if it goes ahead with the Zambian and Australian takeovers.

Timah said on May 12 it was in talks with banks for Rp4 trillion in loans for acquisitions, including about Rp2 trillion to be allocated for buying coal mines.

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