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REPUBLIC OF INDONESIA**

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Highlights

National

- President to attend G20 summit in Pittsburgh

Politics

- Survey respondents want non-political cabinet

Terrorism

- Police, family link terrorism suspect to al Qaeda

Law & order

- Provincial corruption courts to be established under new bill

Health

- Concern as swine flu found in South American birds

Economy

- State-owned enterprises to tone down demands for high interest rates

Business briefs

Macroeconomy

- Government acts to slow price rises
- New bond issue as receipts reach 86% of debt target

Investment

- Nanjing Iron & Steel plans \$1.1 billion steel plant in South Kalimantan
- Nestlé to spend \$100 million to expand milk purchases in East Java

State concerns

- Wider role for state logistics agency to combat high prices
- Indonesia Eximbank launched to boost exports

SOEs

- Bank Mandiri to accept 11% of PT Garuda shares in debt to equity swap
- Market capitalization of listed firms doubles in five years

Private sector

- Lion Air wins approval to fly to Saudi Arabia

Banks

- Healthy report card for major banks from Fitch Ratings

Power

- State power utility looks to build plant at Central Sulawesi gas site
- PT PLN books orders for 1.9 million tons of coal per year

Oil & gas

- Floating plant approved for Inpex Timor Sea gas resource
- Pertamina boosts output at Java sea block

Mining

- Churchill Mining boosts resource estimate to 1.3 billion tons of coal

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NATIONAL

President confirms G20 attendance in US

President Susilo Bambang Yudhoyono will attend the G20 Summit in US in September, according to the State Palace.

State Secretary Hatta Radjasa said the president would attend the G20 Summit hosted by US President Barack Obama in the city of Pittsburgh from September 24 to 26.

"The president will also speak on Indonesia's past progress and future at Harvard University and also hold meetings on renewable energy," Radjasa said, *The Jakarta Post* reported.

Dr. Yudhoyono however will be absent from a UN General Assembly in New York scheduled for September 21 as he wishes to observe the Idul Fitri holiday in Indonesia, he said.

Hatta said the president might also conduct bilateral meetings with leaders from other countries.

POLITICS

Survey respondents want professional cabinet

The public is hoping the cabinet of the next administration is made up of professionals and technocrats and not selections based on politics and religion, according to the results of a poll by the Indonesian Survey Institute (LSI), *The Jakarta Globe* reported.

Asked which were the most important criteria for selecting ministers in President Susilo Bambang Yudhoyono's new government, respondents overwhelmingly avoided politicians and religious figures.

In the poll of 1,270 people, 78.3% of respondents said professional qualifications were the most important factor for selecting ministers, rather than their political, religious, ethnic or regional affiliations.

Only 22.7% of respondents said they believed ministers should be selected based on their political leanings, according to Dodi Ambardi, the director of LSI.

The survey was conducted from July 18 to 28 among respondents selected using multi-stage random sampling techniques. The margin of error was 2.8 percentage points.

Nearly 74% of respondents who live in provincial villages and 85.2% of residents in urban areas wanted professionals to sit in the next cabinet. Only 11.5% of respondents said it was acceptable if ministers came from certain political parties or religious groups, according to the survey.

Ambardi said that even respondents from Java, home to about half of the country's population, viewed professional qualifications as more important than adhering to the traditional model, which has seen proportional numbers of Javanese and non-Javanese ministers appointed.

Reports last week quoted insiders as saying election losers the opposition Indonesian Democratic Party of Struggle and the Golkar Party will be given ministerial posts, raising fears that politics will trump professionalism in the composition of the next cabinet.

The overtures to the two parties that fielded alternative presidential candidates have also upset members of the coalition that backed Yudhoyono and his running mate, Boediono.

TERROISM

Police, family link Jakarta attack suspect to al Qaeda

After several days of silence about the overseas connections of suspected terrorist Muhammad Jibril, police and a member of his family confirmed the suspect in the July 17 Jakarta hotel bombings studied at a school in Pakistan with known al Qaeda links, *The Jakarta Post* reported.

On Thursday, National Police chief Bambang Hendarso Danuri said the suspect, a publisher of radical media and Islamist blogger -- known on the internet as the "Prince of Jihad" -- was once a member of al Qaeda.

Jibril, also known as Muhammad Ricky Ardhan, was detained on Tuesday and officially named a suspect on Friday on charges of helping distribute funds used to finance the Jakarta bombings, which authorities believe originated from al Qaeda, Agence France-Presse reported.

Irfan S. Awwas, Muhammad Jibril's uncle, said his nephew attended a traditional Islamic school in Pakistan for around three years. He didn't mention the name of the school, the *Post* reported.

Awwas is the chairman of the Indonesian Mujahidin Council (MMI), a hard-line group that seeks to implement shariah law throughout the country and was once chaired by firebrand cleric Abu Bakar Ba'asyir, alleged spiritual head of the Jemaah Islamiyah regional terrorist group.

Police are investigating Muhammad Jibril's international links to the terrorist network of Noordin M. Top.

When asked whether Muhammad Jibril had been involved with the Al Ghuroba study group in Pakistan, many members of which are suspected al Qaeda couriers, Awwas did not provide a straight answer.

He asked instead: "What's wrong with joining Al Ghuroba? It has never been declared as a forbidden organization in Pakistan."

Rusman Gunawan, a member of the Al Ghuroba study group, was sentenced to four years in prison by the Central Jakarta District Court in 2004 after he was found guilty of assisting terror activities.

Gunawan is the brother of Hambali, a Jemaah Islamiyah leader currently in detention at Guantanamo Bay. Hambali helped organize a slew of attacks in Indonesia, including the 2002 Bali bombings and the 2003 JW Marriott bombing.

Along with five of his associates, Gunawan was deported from Pakistan in late 2003 after the Pakistani authorities uncovered his activities with al Qaeda.

In addition to arresting Muhammad Jibril, police have also questioned a Saudi Arabian by the name of Ali Muhammad bin Abdullah alias Al Khalil Ali, over similar allegations.

Ali has been accused of being an international courier who helped find donors to finance the activities of the terrorist group led by Top.

Hambali may escape justice over 2002 Bali attacks

Hambali, the terrorist mastermind believed to be behind the Bali bombings, may escape justice over his role in the 2002 attacks that killed 202 people.

Senior US officials have told *The Australian* that military prosecutors lack the evidence to charge the Indonesian terror suspect over the bombings of the Sari Club and Paddy's Bar on October 12, 2002.

The paper says the news will come as a blow to relatives of those who perished in the deadliest terrorist attacks ever perpetrated in Indonesia. It follows the execution in Indonesia last year of three of the bombers, Imam Samudra and brothers Amrozi and Mukhlas.

While authorities are confident they can tie Hambali to other terrorist attacks across the archipelago - ensuring he is almost certain to remain in custody - US officials say it is unlikely the 45-year-old will be charged over his role in the Bali bombings.

Despite the lack of evidence, there is a near universal consensus among experts, intelligence analysts and government officials that Hambali was involved in the twin blasts in the Kuta tourist strip.

Hambali, whose real name is Riduan Isamuddin, was arrested in 2003 in Thailand as part of a US-led operation.

A senior US official close to the investigation said the problem boiled down to a lack of admissible evidence. "As it stands

now, the case against Hambali on Bali is weak," he said. "But the investigation has not stopped. It is ongoing."

As al Qaeda's chief of operations in Southeast Asia, he is implicated in a string of attacks across Indonesia, including the 2003 attack on Jakarta's Marriott Hotel that claimed 12 lives and a series of Christmas Eve church bombings in 2000 that killed 19.

Hambali was the head of Mantiqi One, the JI cell covering Malaysia and Singapore. His deputy, Mukhlas, was the field commander for the nightclub blasts.

Indonesian authorities, who also want to prosecute Hambali, were for the first time granted access to the link man between al Qaeda and JI earlier this year.

While evidence against Hambali over the 2002 Bali attacks may be lacking, authorities are believed to have enough evidence to prove his direct involvement in several other terrorist atrocities in Indonesia.

US military prosecutors have hinted strongly they would seek the death penalty for Hambali. Former chief prosecutor Col. Mo Davis said in 2007 there was a good chance Hambali would be charged with murder.

LAW & ORDER

Provincial corruption courts to be established: Official

A House of Representatives' working committee for the Corruption Court bill has agreed to establish Corruption Courts in all 33 provinces, an official said, Detikcom reported.

"Each province needs to have its own Corruption Court so that corruption eradication efforts will be more effective," committee head Arbab Paproeka said.

Suspects in provincial-level corruption cases will not be required to go on trial at the Corruption Court in Jakarta.

"The District Court head in each province will be appointed as head of the local Corruption Court," he said, adding the committee is still debating the number of judges that will be appointed at each court.

Paproeka said the local graft courts will be established once the House ratifies the Corruption Court bill.

Last week Paproeka said the working committee would focus on 10 main points in the bill in an effort to pass it before the end of September.

Bribery most common device in graft

Indonesian Corruption Watch (ICW) said Thursday that bribery was the most popular method of committing corruption between January 2008 and August 2009, as disclosed by the Corruption Eradication Commission (KPK), *Kompas* reported.

ICW researcher Febri Diansyah said that 34 of 95 graft cases stemmed from bribery.

There were also 19 illegal mark-ups, 18 illegal levies, 15 budget misappropriations, eight directly procured appointments and one case of blackmail.

Bribery constitutes corruption at its initial levels, which can then develop into acts such as blackmail, which may be committed by ordinary people and public service officials alike, Diansyah said.

At higher levels, corruption takes the form of nepotism and cronyism, and extends as far as involvement with business and political mafias, entrenching itself even with law enforcers and legislators, said ICW

ECONOMY

SOEs agree on 8% deposit interest rate

All state-owned enterprises (SOEs) have agreed to refrain from asking banks to pay interest of more than 8% on their deposits in a further bid to lower real interest rates on loans, State Minister for State Enterprises Sofyan Djalil said, Asia Pulse reported.

The agreement was made in line with Bank Indonesia's (BI) policy and an agreement of 14 banks to set the deposit interest rate at 8%, Djalil said after signing of the agreement.

Djalil said the commitment would be realized by maintaining the present SOEs' funds in banks reaching 35% of total deposits.

Djalil spoke after meeting on Wednesday with Finance Minister Sri Mulyani Indrawati and senior executives of several large state firms, including PT Telkom, PT PLN and state pension fund PT Jamsostek, *The Jakarta Globe* reported.

As the primary shareholder of most state-owned firms, the government was willing to forego revenues from higher deposit rates to encourage banks to lower lending rates for businesses, which would stimulate the economy, Djalil said. "The Ministry of Finance also supports the plan," he said.

BI Senior Deputy Governor Darmin Nasution told a press conference the deal would strengthen the agreements made with bankers on the reduction of deposit interest.

Nasution said before that the domination of the largest 1% of bank depositors, particularly the SOEs, had made deposit interest high, pushing up loan rates by a similar margin.

In the energy sector, a brawl was brewing between the government and Mobil Cepu Ltd., a unit of ExxonMobil, with upstream oil and gas regulator BP Migas stating that it may take the company to arbitration if the firm fails to produce 15,000 barrels per day (bpd) of crude oil by the end of August.

State-owned oil and gas company PT Pertamina said on Friday that it was ready to become the main operator of the Cepu block if asked by the government, a company official said, *The Jakarta Globe* reported.

"If the government made such a decision (to appoint Pertamina operator), we have enough experience to handle it," said director Omar S Anwar.

The block has been producing less than 2,000 bpd but full-fledged production has not begun because Mobil Cepu has not completed production facilities.

The company has repeatedly said low output was due to difficulties in land acquisition, which hampered the construction of facilities and pipelines.

BUSINESS BRIEFS

MACROECONOMY

Govt. aims to mitigate price rises in September: Minister

Inflation will rise at a faster pace in September due to the Muslim holiday season but the government will work to mitigate price rises, Finance Minister Sri Mulyani Indrawati said Monday, Dow Jones reported.

"Inflation (next month) will definitely rise, but we will work to ensure it does not increase too much," Indrawati, who is also acting coordinating minister for the economy, told reporters.

In July, the consumer price index rose 0.45% on the month and 2.71% on the year - the slowest annual inflation in nine years.

Separately, head of the Central Bureau of Statistics, Rusman Heriawan, said on Monday that annual inflation in August may be below July's inflation rate, while month-on-month inflation in August was likely to be around July's level of 0.45%.

Govt. aims to raise Rp2T at next auction

The government aims to sell Rp2 trillion (\$198 million) of debt at an auction on September 1, after selling Rp3.5 trillion worth of bonds last week, the Finance Ministry said on Thursday, Reuters reported.

The ministry has already raised around Rp124.5 trillion or 86% of its Rp144.5 trillion gross debt issuance target this year, and is not seen as under pressure to increase the size of its next debt sale.

The ministry raised Rp3.5 trillion, nearly double its target, at its last debt auction on August 25, partly boosted by local bank depositors shifting their funds into bonds after a cap on domestic bank deposit rates.

Bank Indonesia deputy governor Hartadi Sarwono told reporters on Tuesday that foreign ownership in the central bank's short-term paper (SBIs) dropped 20% in the past two weeks to Rp27.8 trillion.

INVESTMENT

China's Nanjing to build \$1.1B S. Kalimantan plant

Chinese steel maker Nanjing Iron and Steel Company plans to build an iron making plant in South Kalimantan soon, Asia Pulse reported on Friday.

Nanjing is expected to invest \$1.1 billion in the project, said I Putu Suryawirawan, Metal Industry director at the Industry Ministry.

Nanjing will be the second Chinese steel company to invest in South Kalimantan, Suryawirawan said.

Earlier, Nickel Resources Holdings Co. through PT Mandan Steel, invested \$220 million in the same business in South Kalimantan, he was quoted as saying by *Bisnis Indonesia*.

On Monday, the regional administration of China's province of Henan and the Industry Ministry inked six agreements worth around \$200 million in investment.

Henan Governor Guo Gengmao said the investors include ventures involving Yongtong Steel and China Nickel Group worth \$64 million, and Good Friend Tire Co. worth \$15 million.

Nestlé to invest \$100M in E. Java

PT Nestlé Indonesia said it plans to increase its investment in dairy cattle farms in Indonesia in 2010, Asia Pulse reported.

The company will invest \$100 million to expand its dairy cattle farms in cooperation with local farmers in East Java, company president Peter Voght said.

"The company's total investment in cattle farms will be three times larger than its first investment in 1975," he added.

The company will also invest in the raw milk processing industry, Voght said.

Around 30,000 farmers are involved in the dairy cattle farming partnership with Nestlé, which receives 600,000 liters of raw milk per day, *Investor Daily* reported.

National car makers may need \$100M investment

Manufacturers of three new national car prototypes might need a combined investment of \$100 million to launch assembly plants to mass produce three new vehicles - the Tawon, Gea and Arina, the Industry Ministry forecast, *The Jakarta Post* reported.

Panggih Susanto, director for land and military transportation, said Tuesday that each of the three national car owners would require more than \$30 million to build an assembly plant, with a production capacity of 5,000 to 10,000 units per annum.

He said the vehicles, expected to be priced at around Rp50 million (\$5,000) each, were still in the prototype stage and launch schedules remained unclear.

The four-wheel Gea has been developed and tested by the producer, state-owned train manufacturer PT Industri Kereta Api (Inka), since last year.

Inka uses a 500-cc engine developed by the Agency for the Assessment and Application of Technology (BPPT) after initially planning to use a Chinese-made engine.

Arina and Tawon are being developed by Semarang State University in Central Java, which is teaming up with local administrations.

The Semarang-based team has produced five designs for the three-wheel Arina, resembling a bajaj — a motorized pedicab. With a capacity of three passengers, Arina, powered by a 500-cc gasoline engine, may be suitable for both carrying goods and passengers.

A production facility for the four-seater Tawon has been built in Serang, Banten, using capital supplied by a businessman from Surabaya, East Java.

India's BEML to invest \$44M in Indonesia

BEML Limited, India's second largest heavy equipment producer, will invest \$44 million in Indonesia to support its business expansion in the country, an official from the company said, *The Economic Times* reported.

VRS Natarajan, the chairman and managing director of BEML Limited, said \$44 million had been allocated for construction of a marketing office and spare parts depot, as well as a product services center in Balikpapan in East Kalimantan.

"Currently, India buys coal from Indonesia and we want Indonesia to buy heavy equipment from India. We have a close historical relationship with Indonesia," he said.

The expansion is supported by promising heavy equipment demand for coal mining and construction sectors in Indonesia, he told *Bisnis Indonesia*.

To support the expansion, BEML Limited has established PT BEML Indonesia.

BEML Limited was formerly known as Bharat Earth Movers. The group's principal activity is manufacture of mining and construction equipment, railway rolling stock, defense equipment and trading.

STATE CONCERNS

Bulog to regain control of staple foods

The government will mandate the State Logistics Agency (Bulog) to control the prices of not just rice, but also several basic commodities such as sugar and cooking oil, *The Jakarta Post* reported.

The plan surfaced after the government failed to prevent a jump in the price of sugar to Rp11,000 per kilogram from its set retail price of Rp6,500.

"Sugar has an unhealthy market, but we can fix it through Bulog," State Minister for State Enterprises Sofyan Djalil said Friday, adding that the government was preparing the best mechanisms that would allow Bulog to control the price of the commodity.

According to Djalil, Bulog secured 14% of national sugar stock starting this year. However, Bulog could not influence the sugar market because the bulk of the stock had been sold to private companies.

Djalil suggested that Bulog also be allowed to control the price of control cooking oil, which tends to fluctuate due to a poor market system.

"Actually we do not have a distribution network for cooking oil. Bulog will be able to build up a market network and keep the commodity's price under control," he said.

Indonesia Eximbank launched to boost exports

Indonesia will this year extend \$2.52 billion in trade financing to local exporters to support trade, Finance Minister Sri Mulyani Indrawati told reporters Tuesday as reported by Dow Jones.

The government has also approved a capital reserve of IDR6 trillion for its newly-created trade financing agency, Indonesia Eximbank, Mulyani said.

Mulyani said the \$2.52 billion trade financing was agreed as part of an initiative by Group of 20 countries to supply trade finance to importers and exporters.

She said Bank Indonesia, the government, local banks and the Japan Bank for International Cooperation will provide facilities to disburse the funds to domestic exporters.

Mulyani said the government has also agreed to this year provide an initial capital reserve of IDR4 trillion (\$536 million) for Indonesia Eximbank. The reserve will be expanded to IDR6 trillion next year using funds from the state budget, she said.

"It is planned that Eximbank will improve Indonesia's exports in this time of global economic weakness," Mulyani said.

Eximbank will provide export financing, guarantees and insurance either in conventional or Shariah-based format to small and medium enterprises as well as larger corporations, Mulyani said.

Indonesia's imports and exports have both fallen sharply as the global economic downturn curbs external and domestic demand.

Imports in June fell 34% on year and exports 27%.

The government previously signed a deal with Japan Bank for International Cooperation under which JBIC will this year provide \$500 million to Eximbank for trade finance purposes.

On the import side, Eximbank will initially prioritize "necessary" imports such as goods required for infrastructure projects, Mulyani said.

Eximbank, previously known as Bank Ekspor Indonesia, was earlier this year mandated to become a dedicated trade finance provider, and is expected to be fully functional by the end of the year.

GDP from fisheries sector up \$7.7B in four years

The fisheries sector's contribution to GDP increased by Rp76.79 trillion (\$7.7 billion) in the last four years from 2005 to 2008, Asia Pulse reported.

"Contribution from the fisheries sector to the non-oil sector GDP increased by 8.37%," said Minister of Maritime Affairs and Fisheries Minister Freddy Numberi.

In 2005 the sector contributed only Rp59.64 trillion, increasing to Rp136.43 trillion in 2008, he said.

Govt. to introduce tax refunds for foreign tourists

The government plans to introduce a "tax refund" scheme for foreign tourists shopping in the country as early as next year under an amendment to an existing law on value-added tax and luxury tax, legislators at the House of Representatives said, *The Jakarta Post* reported.

Indonesia may start introducing the tax refund scheme as soon as 2010 as the bill on value-added tax and luxury tax is expected to be endorsed this year.

"We have approved the tax refund (scheme). It will be applied to foreign tourists coming via air transportation, not sea or land," Vera Febyanthy, head of the House's working committee on the amendment, said Tuesday.

She added that the details of the tax refund mechanism would be elaborated at a later date through government regulations.

The government and House have agreed to approve the tax refund scheme in a bid to attract more tourists to Indonesia, which would eventually help increase the country's foreign exchange income, Febyanthy said.

Cooperation increased with Czech Republic

Indonesia and the Czech Republic signed a sweeping bilateral cooperation agreement at the first Joint Commission Meeting between the two countries in the Czech capital of Prague, Antara reported on Monday.

An official from the Indonesian Embassy in Prague, Azis Nurwahyudi, said the two countries agreed to increase cooperation in education, trade, investment, energy, defense, agriculture, healthcare and banking.

Nurwahyudi said officials also discussed plans for the prime minister of the Czech Republic to visit Jakarta next year.

SOEs

Bank Mandiri to take 11% stake in Garuda

PT Bank Mandiri, the country's largest lender, will take an 11% stake in flagship carrier PT Garuda Indonesia under a debt-to-equity conversion agreed to by all parties involved, including the central bank, the State Enterprises Ministry said on Friday, *The Jakarta Globe* reported.

Under the plan, Mandiri will convert \$100 million of the state-owned carrier's bond debt into equity, the state ministry's office said.

State Minister for State Enterprises Sofyan Djalil said the deal could be concluded before Garuda's planned initial public offering, scheduled for the middle of next year.

He said Bank Mandiri would be required to outline a time frame for selling its shares in Garuda.

The deal will help pave the way for the airline's long-delayed initial public offering, most recently rescheduled until June 2010.

All of Garuda's debt, about \$800 million in total, is being restructured this year.

"We are currently in the documentation process with our debtors, including Bank Mandiri," said Eddy Porwanto, Garuda's chief financial officer.

"This means that we are talking about details to be put in the contract. We estimate it will be finalized by the end of the third quarter."

On Monday, Garuda chief executive Emirsyah Satar said the company aims to raise \$300 million to \$400 million from an IPO.

The flag carrier also aims to start flights to Amsterdam next year, and may fly to other European cities and to the US at a later stage. As well as extending its routes, Garuda also plans over the next five years to increase its fleet to 116 aircraft from 62, including acquisitions of larger Boeing 777s and Airbus 330-200s.

SOEs' market capitalization up 100% in five years

The State Minister for State Enterprises announced Thursday that the market capitalization of 14 publicly listed state companies had increased to Rp520 trillion (\$52 billion) in the first seven months of the year, *The Jakarta Post* reported.

"The performance of state publicly listed companies has improved by up to 100% in the last five years," Sofyan Djalil said.

He said three big companies - telecommunications company PT Telkom, banking giant PT Bank Rakyat Indonesia (BRI) and gas producer PT PGN - had contributed the most to the total market capitalization figure.

The state companies listed at the Indonesia Stock Exchange control 31.42% of the total market, Djalil added.

Govt. injects \$44M into state ship builder

The government has agreed to inject \$44 million into ailing state-owned ship manufacturer PT PAL Indonesia, *The Jakarta*

Post reported.

“The finance minister has issued an approval letter and the money will be disbursed in September after we have finished completing the necessary paperwork,” PAL president director Harsusanto told reporters on Wednesday.

PAL has been under the care of state asset management firm PT Perusahaan Pengelola Aset (PPA) since it defaulted on its business obligations due to mismanagement and currency losses.

The obligations include meeting deliveries of 18 vessels, including military ones, ordered by domestic and foreign firms in 2006.

PAL Indonesia posted a total loss of Rp443 billion (\$44.74 million) in 2007 and Rp46 billion in 2008.

Harsusanto said the fresh funds would assist the company's internal restructuring and the construction of the ordered vessels, six of which are to be delivered by the end of the year.

Jasa Marga accepts \$300M loan offer

Toll road operator PT Jasa Marga said it has accepted an offer for a Rp3 trillion (\$300 million) loan from a syndicate of three state banks, Asia Pulse reported.

The loan from Bank Mandiri, Bank Negara Indonesia (BNI) and Bank Rakyat Indonesia (BRI) will be used to build new toll roads, Reynaldi Hermansyah, the finance director of the state company said.

Part of the fund will be used to finance the construction of a 26.5-km toll road between Cengkareng and Serpong via Kunciran in Banten at a cost of around Rp1.5 trillion, he said.

The company, which raised its toll fees this month, is set to chalk up Rp3.7 trillion in net income this year, Hermansyah said.

PRIVATE SECTOR

Firms to go ahead with IPOs as bourse bounces back

Several companies that previously postponed their entry into the Indonesia Stock Exchange have reinstated their plans to launch initial public offerings (IPOs) as the index has risen more than 70% this year, *The Jakarta Post* reported.

Local mining contractor Saptaindra Sejati and two state-owned firms — Bank Tabungan Negara (BTN) and state housing construction firm Pembangunan Perumahan (PP)— are among those expected to offer their shares to the public through IPOs this year, a person familiar with the developments said.

Saptaindra, a unit of PT Adaro Energy, the country's second largest coal producer, will carry out an IPO this year after it being delayed since last year, said Muhammad Hanif, the executive director of Danareksa, which has been appointed as the underwriter for the IPO.

According to previous reports, BTN planned to unload 30% of its stake to raise Rp1.5 trillion in proceeds. There are no figures yet published for PP's proposed IPO.

The government has repeatedly declared its intention to list steel maker PT Krakatau Steel and flag carrier PT Garuda Indonesia in the stock market.

The government plans to divest a 30% stake in Krakatau Steel and a 30% stake in Garuda. Combined with the expected proceeds from BTN's IPO, the government aims to generate about \$1 billion.

Lion Air to fly to Saudi Arabia: Official

Lion Air has been cleared to fly to the Middle East after aviation officials from Saudi Arabia finished auditing the private airline, a senior official said on Friday, *The Jakarta Globe* reported.

Herry Bhakti Singayudha, Director General of Civil Aviation at the Transport Ministry, said his office was only awaiting a

certificate from Saudi Arabia's General Authority of Civil Aviation (GACA) before Lion Air starts operating the Jakarta-Jeddah route.

Lion Air was supposed to have been cleared in June, but Singayudha said there had been delays in finalizing an agreement with the GACA.

Currently, only state-owned Garuda Indonesia Airlines flies the Indonesia-Saudi Arabia route.

BANKS

Fitch gives banks healthy report card

London-based Fitch Ratings says profitability at several of its rated large to mid-sized Indonesian banks has remained generally strong in 2008 and the first half of this year and non-performing loans (NPL) are expected to grow only moderately, a statement from the agency on Tuesday said.

The rated banks should be able to absorb the increase in credit costs as loan quality deteriorates in 2009 and possibly into 2010, it said, while the economy as a whole would post positive but weaker growth, warranting the continuation of the stable outlook on the banks.

"Nevertheless, the management of loan quality will remain a major challenge for banks in Indonesia due to the more volatile operating conditions, poor corporate debt history and the evolving state of the banks' risk management," it said.

Results of a simulation showed that while in general earnings should be adequate to deal with the additional stresses, results do vary widely among individual banks, with weaker earnings at some of the mid-sized to smaller banks exposing them to higher capital impairment risk should operating conditions deteriorate significantly.

Fitch believes that more capital restorative measures will be desirable and may be necessary to support expansion plans and provide a sufficient buffer against the generally riskier conditions in Indonesia," the statement concluded.

Mandiri confirms \$300M bond issue

PT Bank Mandiri, Indonesia's largest lender in assets, confirmed a report saying the bank is preparing a plan to issue bonds this year, Asia Pulse reported.

The bank hopes to issue the bonds valued at Rp3 trillion (\$300 million), Bank Mandiri director Thomas Arifin said.

Mandiri was studying the market conditions and had invited seven investment banks for selection as the underwriter.

The prospective underwriters are Bahana Securities, Danareksa Sekuritas, Trimegah Securities, Deutsche Bank AG, Standard Chartered Securities Indonesia, Barclays Capital and Mandiri Sekuritas.

Mandiri plans to disburse Rp9 trillion in new credit in the second half of the year to meet its growth target of 16% this year.

By the end of the first half of the year, the bank recorded Rp181.6 trillion in outstanding credits or an increase of 21.4% year-on-year, *Bisnis Indonesia* reported.

Panin Bank to issue Rp5T bond

PT Bank Pan Indonesia (Panin Bank) said Thursday that it will issue Rp1.5 trillion in five-year bonds to strengthen its capital base and boost lending, Dow Jones reported.

The bank hasn't decided on the coupon rate of the bond.

The issuance will be arranged by PT Indo Premier Securities, PT Evergreen Capital, PT Bahana Securities and PT Danareksa Sekuritas.

Panin Bank said that it hopes to get the green light for the fund-raising plan from the Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK) by September 28, which will allow it to start marketing the bond from September 30 to October 1, and issue the debt on October 6.

It added that it plans to list the new bond on the Indonesia Stock Exchange on October 7.

State banks plan single joint ATM card

Four state-owned banks will issue a single ATM card for millions of their customers, *Kompas* reported on Friday.

The banks, Bank Mandiri, Bank Rakyat Indonesia (BRI), Bank Negara (BNI) and Bank Tabungan Negara (BTN), are grouped under the Association of State Banks (Himbara).

“There will be no Mandiri, BRI, BNI and BTN ATM cards, but a Himbara card,” Bank Mandiri president director Agus Martowardojo said.

Martowardojo has not confirmed when the new joint ATM card will be launched as the plan is still being thoroughly studied including the application of information technology.

POWER

PLN eyes power plant near Donggi-Senoro LNG project

State power company PT PLN is considering building a power plant near the Donggi-Senoro LNG project in Central Sulawesi to reduce its dependence on oil products, an executive said on Tuesday, Reuters reported.

“Donggi-Senoro is an opportunity to meet our gas consumption. We are interested in using the (Donggi-Senoro) gas for our power plant,” Fahmi Mochtar, president director of PLN, told reporters.

PLN may opt to set up a power plant with a minimum generating capacity of 100 MW near the project as it was cheaper than shipping the LNG to power plants in Java or Sumatra, he said.

“The gas price will be lower if we build a gas-fired power plant near the project,” he said.

Mochtar also said private fertilizer company PT Panca Amara Utama (PAU) has expressed an interest in building a plant at the Donggi-Senoro site and was willing to buy about 100 mmscfd of gas, or half of the total daily output from the blocks. PAU is a subsidiary of PT Bosowa.

PLN buys 1.9M tons coal per year for new power plant

State power company PT PLN has secured 1.9 million tons of sub-bituminous coal per year for its new coal-fired power plant in Central Java, an official said on Thursday, Reuters reported.

PT Arutmin, a unit of Indonesia’s largest coal producer PT Bumi Resources, and PT Titan Mining Energy will each supply 950,000 tons of coal per year to Rembang power plant, which has generating capacity of 630 MW, Pudji Widodo, PLN’s head of coal energy unit said.

“First coal delivery started this week. They will supply the coal for 20 years,” Widodo said.

PLN bought sub-bituminous coal of 4,200 kcal/kg gross as-received (GAR) at Rp389,000 (\$38.51) per ton on cost, insurance, and freight (CIF) basis, he said.

Rembang power plant is one of 35 new coal-fired power plants being built under the government’s crash program to add 10,000 MW of generating capacity.

Three new coal-fired power plants with total generating capacity of 1,960 MW are expected to start commercial operations later this year, including Rembang, which is expected to start in October.

OIL & GAS

BP Migas approves Inpex plan for floating gas plant

Upstream oil and gas regulator BP Migas has given final approval to a plan by Japan’s Inpex to build an offshore liquefaction

plant to process natural gas extracted from the Masela block in the Timor Sea, *The Jakarta Globe* reported.

“Our study shows that a floating facility remains the most economically feasible option,” BP Migas chief Raden Priyono said.

The government was seeking to avoid the additional cost-recovery payments it would owe Inpex for an offshore plant but the Japanese energy producer wanted to avoid land-acquisition problems associated with building an onshore facility.

Priyono said the government determined that it would be prudent to endorse the offshore facility.

Inpex plans to build a \$19.6 billion offshore terminal 200 km south of Saumlaki Island, Maluku, to process gas from the Abadi field in the Masela block. The plant will have an annual capacity of 4.5 million tons. Production at the Abadi field is scheduled to start in 2016. Inpex said the field holds estimated reserves of as much as 10 trillion cubic feet of fuel.

The Abadi project will be the country's second-largest gas project after the BP-led Tangguh project in West Papua.

Inpex signed a 30-year deal in 1998 to develop the field but has made little progress. In January 2008, the government ordered it to submit a development plan or face termination of its contract. The company delivered the \$19.6 billion plan in June 2008.

Nico Muhyiddin, Inpex's planning manager, said the company would receive tenders for the processing plant in September.

Pertamina unit boosts ONWJ block crude output

PT Pertamina Hulu Energi has increased crude oil output from the Offshore North West Java (ONWJ) block by an average 4,000 barrels per day (bpd) since acquiring a stake in the block last month, an official said Wednesday, Dow Jones reported.

“At one point, the daily peak output was 26,000 barrels,” company spokesman Ali Mudakir said.

Mudakir added that the block was producing 21,500 bpd before the company bought BP Plc's entire stake in BP West Java Ltd., which owns a 46% interest in the ONWJ block and is the operator.

He said natural gas produced from the block remains at 220 million cubic feet a day.

Crude output from the block is expected to increase, as two new wells are scheduled to come on stream next year.

PT Pertamina Hulu Energi is a wholly owned unit of state-owned oil and gas company PT Pertamina.

33 cargoes of LNG to be exported in August

Indonesia will exports 33 cargoes (around 1.82 million tons) of liquefied natural gas (LNG) this month including the first shipment of one cargo to US buyer Sempra from Tangguh, West Papua, Asia Pulse reported.

Four cargoes will be shipped from Arun in Aceh to South Korea and Japan, and the rest from Bontang, East Kalimantan, the upstream oil and gas regulator BP Migas said.

BP Migas chief Raden Priyono said the LNG from Bontang will include 20 cargoes to Japan, three cargoes to South Korea, four cargoes to Taiwan and a cargo to China.

Indonesia has the capacity to produce 23 million tons of LNG a year from Bontang and Arun, not including from Tangguh.

Tangguh, which is not yet fully operational, is expected to have a production capacity of 7.6 million tons a year.

MINING

Nine local firms seek BHP coal project

Nine local companies including Medco Energi and PT Adaro Energi have expressed interest in acquiring BHP Billiton's coal

concession in Central Kalimantan, a senior official told reporters Thursday, *The Jakarta Post* reported.

"We heard that eight to nine domestic companies appear interested in purchasing BHP's concession... we have not received bids from any foreign companies as yet," Bambang Setiawan, Director General of the Energy and Mineral Resources Ministry's division for Coal, Minerals and Geothermal said.

Setiawan said that the divestiture would be conducted on a business-to-business basis, between BHP and interested buyers. However, the government does expect the company to divest locally, he added.

Australia-based BHP, the world's largest mining company, is in the process of pulling out from Indonesia.

In early June, the company announced its decision to terminate the development of the Haju trial mine, one of seven mines registered under the company's Maruwai coal project in Central Kalimantan. However, it is still evaluating the commercial options available in divesting the assets.

Earlier, state mining company PT Aneka Tambang also said it is considering acquiring BHP Billiton's Maruwai coal project as it had type of coking coal that differs from most coal found in Indonesia.

Vale sells 2.1% stake in INCO

Vale SA, the world's largest iron-ore producer, raised Rp925.6 billion (\$91.6 million), selling 2.1% of unit PT International Nickel Indonesia (INCO), Bloomberg reported.

Vale sold 205.68 million of the shares through a book-building process, INCO said in a stock exchange filing in Jakarta on Thursday.

About 205.68 million of the shares exchanged hands at Rp4,500 apiece Thursday on the negotiated market, where investors and exchange members negotiate the price and report it to the bourse, a discount of 6.3% from INCO's closing price on Wednesday

Following the sale, INCO is 58.73% owned by Vale, 20.09% by Sumitomo Metal Mining Co. Ltd. and 21.18% by the public and other shareholders, INCO said.

INCO also announced the appointment of Mark J Travers as the company's new commissioner, replacing Marco Pirez at the company's extraordinary shareholders' meeting Thursday, *The Jakarta Post* reported.

The meeting also approved the proposed amendments to the company's internal policy to comply with the stock market's regulation on public offerings, the company said in a statement.

Churchill Mining upgrades East Kutai reserves

Coal miner Churchill Mining Plc said its total measured and indicated resources for the East Kutai Coal project in East Kalimantan exceeded 1.3 billion tons and that the asset would yield substantial interest in the company from energy producers, Reuters reported.

Churchill said it was confident that the majority of the inferred mineral resources could be confirmed.

However, given the extremely large measured and indicated resource, the company may consider leaving further exploration work on the inferred tons for a later stage.

The company said its 75%-owned East Kutai project was expected to result in a project with "persuasive returns".

The project feasibility work is on schedule with about 80% of the engineering completed to date, and the feasibility study is still expected to be completed by the end of 2009, the company said.

Indonesia aims to boost coal output in 2010

Indonesia will boost coal production to up to 250 million metric tons next year from 230 million tons targeted this year, a government official said Friday, Dow Jones reported.

The planned increase is in response to an order from the House of Representatives to increase coal royalties to Rp15 trillion next year, said Bambang Setiawan, Director General of Minerals, Coal and Geothermal Resources at the Ministry of Energy

and Mineral Resources.

“Output is targeted to increase by between 10 million and 20 million tons,” Setiawan added.

In the first half of 2009, coal production reached 122 million tons or about 4.2% higher than the same period last year, according to the Indonesian Coal Mining Association (APBI).

For the July-December period, APBI chairman Bob Kamandanu said the country’s total production may increase by 5.7% to 128 million tons, from 121 million tons in the same period last year.

Antam expects 2010 ferronickel output up by 42%

Gold and nickel miner PT Aneka Tambang (Antam) expects 2010 ferronickel output to increase by 42% on year as the company will fully operate its third ferronickel plant next year, a company executive told Dow Jones Newswires Wednesday.

“Ferronickel output next year is expected to increase to 17,000 metric tons from a target of 12,000 tons this year due to the full operation of Feni3,” said Antam president director Alwin Syah Loebis.

He said he also expects the company’s gold output to increase by 60% to up to 4 tons from the 2.5 tons Antam targets this year.

In an effort to diversify its business, the company plans to acquire stakes in several mining companies later this year, he said, without elaborating.

Rio Tinto awaits license to start Sulawesi nickel project

Rio Tinto is awaiting a license from the government to establish a local corporate body needed to start a nickel mining venture in the country, Asia Pulse reported.

The establishment of the local corporate body is one of the conditions needed by Rio Tinto to secure a license for the venture at Lasamphala in Central Sulawesi and Southeast Sulawesi.

Rio Tinto spokesman Budi Irianto said Rio Tinto Indonesia had secured an approval from the Energy and Mineral Resources minister to develop the nickel mine.

Earlier, Rio Tinto said it would set aside Rp18 trillion (\$1.8 billion) for early investment in the nickel mine.

The Lasamphala mine is expected to turn out 46,000 tons of nickel metal a year in the first years of its operation to be increased to 100,000 tons later, *Investor Daily* said.

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