

THE COORDINATING MINISTRY FOR ECONOMIC AFFAIRS
REPUBLIC OF INDONESIA

Main Building, Ministry of Finance, Jl. Lapangan Banteng Timur No.2-4 Jakarta Pusat
Tel: (021) 380-8384 Fax: (021) 344-0394 Website: <http://www.ekon.go.id>

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- Investment realization up by 70% in the first half on the same period last year

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POLITICS

Government, GAM Peace Accord

Indonesia's government and the separatist Free Aceh Movement (GAM) have reached a peace deal to end the 29-year insurgency in the tsunami-devastated province, communications Minister Sofyan Jalil confirmed on Sunday (17/7/05).

On Saturday, negotiators from both sides said they had reached a tentative agreement to end one of the world's longest-running wars.

The draft accord, which hinged on allowing the separatist GAM to form its own political party, was sent to Jakarta for approval by President Susilo Bambang Yudhoyono.

The two sides are to initial a deal seen as the best chance yet of ending the three decades of fighting that has killed 15,000 people in Aceh. The peace accord will be signed in mid-August at a formal ceremony in the Finnish capital.

The agreement reportedly will allow the separatists to field individual candidates in local elections next April. The government also has undertaken to change a law banning local political parties — a key rebel demand — within 18 months.

The draft agreement also provides for the withdrawal of most of the 40,000 Indonesian troops and paramilitary police deployed to the province, and the disarmament of the 5,000-strong guerrilla force.

This will be overseen by about 250 European Union observers and at least 100 monitors from the Association of Southeast Asian Nations (ASEAN).

In Jakarta, Yudhoyono said rebels will be given three months to disarm. He made the comments to reporters before the draft agreement was announced.

"If the conflict is declared over, then within about three months GAM will be expected to hand over its guns which would then be destroyed," Yudhoyono said.

The peace process was restarted immediately after the December 26 disaster, when both the Indonesian administration and the Aceh government-in-exile in Sweden came under intense international pressure to end the long-running war.

Anti-Graft Drive Pledge

Deputy Attorney General for Special Crimes Hendarman Supandji promised on Tuesday (12/7/05) to speed up the investigation of high-profile corruption cases, including those linked to the alleged misuse of the Bank Indonesia liquidity support facility (BLBI).

Hendarman, the head of a 51-man presidential anti-corruption task force formed earlier this year, said his office will next month start evaluating cases dating back to 1998.

"We will start with the evaluation of all cases, then we will set a target so that we can finish preparing court cases within two months only," Hendarman said. "For example, cases in 1998 should be finished in the August-September period."

He said there were a total of 30 cases, including six or seven related to the abuse of billions of dollars worth of emergency funds channelled the central bank to troubled banks in the wake of the 1997-98 financial crisis.

His statement came after he announced plans to replace the team of prosecutors handling the banking crime cases, saying the pace of the investigation was too slow.

Nine More on Graft Charges

President Susilo Bambang Yudhoyono gave the go-ahead on Thursday (14/7/05) for the investigation of nine more high-ranking officials accused of corruption.

The nine officials to be investigated are the regents of Kapuas Hulu (West Kalimantan), Lamandau (East Kalimantan), Paneglang (Banten), Karawang (West Java) and Banjarsin (South Kalimantan), the deputy regents of Lamandau, Pandeglang and Nganjuk (East Java), and the deputy mayor of Salatiga, Central Java.

The latest suspects bring to 49 the total number of public officials facing allegations of embezzlement.

REGIONS

Tsunami Toll: 226,000 Dead, Missing

The deadly tsunami that struck 12 Indian Ocean nations in December inflicted a total of 226,000 dead and missing, the United Nations said Thursday as it reviewed six months of frantic efforts to assist governments and victims in that region, Deutsche Presse-Agentur reported.

The death toll stood at 176,000 and 50,000 people still missing. The UN said the missing cannot be legally declared dead for one year.

The review was delivered in a special meeting at UN headquarters in New York, attended by government envoys and former US president Bill Clinton, who has assumed the post of UN special envoy for tsunami recovery.

The UN said the tsunami also eroded 97% of the gross domestic product of Aceh province, amounting to an estimated \$4.5 billion in damage. The largest number of dead and missing were from Aceh.

The UN said an estimated 1.1 million people have been displaced by the tsunami and have received shelters. A total of 1.7 million in the region still receive daily food aid.

ECONOMY

RI, Japan's first EPA talks kicked off

In response to an agreement inked between Japan and Indonesia during President Susilo Bambang Yudhoyono's visit to Tokyo in June, senior officials from the two Asian nations had met to initiate the first round of Economic Partnership Agreement (EPA) talks in Jakarta last week.

Modalities needed for further and more substantive negotiations had been agreed at the two-day talks, part of scheduled rounds of negotiations aimed at establishing an EPA, Minister of Trade Mari Elka Pangestu said in a media statement. The modalities cover, among other things, the basic principles of negotiations, the structure and coverage of the negotiations, place and frequency of meetings, as well as setting up formations for expert groups.

Indonesia will identify the areas in which to negotiate after the modalities are agreed upon. The areas range from trade of goods and services, customs procedures, rules of origin, investment policy, government procurement, movement of natural persons to intellectual property rights.

Soemadi DM Brotodiningrat, former Indonesian ambassador to Japan and currently ambassador to the US, headed the Indonesian delegation in Thursday's talks, while Japan led by Mitoji Yabunaka, deputy minister for Japanese foreign affairs in charge of EPA.

Before the talks, both countries underwent a series of preparatory talks to identify concerns and benefits of a possible bilateral EPA.

Investment Realization Jumps

The government continued to battle with the problems of its fuel subsidy, but investment figures continued to increase, with the Investment Coordinating Board (BKPM) saying that realizations in the first six months were 70% up on the same period last year.

The government began introducing measures to cut the cost of fuel subsidies. It ordered mining, oil and gas firms to buy diesel at full market prices starting this month. Previously, they were paying only 75% of the market price.

The government also turned to an energy-saving campaign to ease the crisis, urging people to curb the use of electricity and automobiles.

Hadi Soesastro, executive director of the Centre for Strategic and International Studies (CSIS) suggested that fuel prices be raised gradually to at least 50% of the international oil price.

"Politically, it will be difficult for the government, but it's a must. The government has to come up with a way to convince the people about the urgency of increasing the price of gasoline and diesel, and at the same time prepare another low-income assistance fund in health and education to mitigate the impact of the price increase on that group of people," he said, adding that the best way to push fuel consumption down is to make it more expensive.

But senior economist Raden Pardede said the government is being cautious before making a politically risky decision. "Right now, the government must be looking for a politically correct way to do it, studying all options and alternatives from the mildest to the harshest," he said.

The investment picture was far more positive. BKPM said actual foreign direct investment rose 70% to \$3.4 billion into projects in the first half of the year. If the level of investment continues for the rest of the year, a total of around \$6.7 billion would still be well below the average \$30 billion in investments before the economic crisis, but the highest for some years.

"Whether it's up 40% or 60 or 80 I don't know," *The Financial Times* quoted Christa Janjic, regional economist for UBS, as saying. "But there is a clear trend that FDI is increasing."

The construction sector was the leading contributor to the first-half increase in FDI with 15 projects worth \$664 million.

BUSINESS BRIEFS MACROECONOMY

Key Rate Rises, Rupiah Defended

The rate on Indonesia's key one-month debt rose further at an auction on Wednesday (13/7/05), a move widely expected as the central bank defends the rupiah.

The one-month rate rose 5 basis points to 8.49%. The week before, the rate on the widely-held paper rose 19 basis points, the biggest increase in a single auction since August 2001, Reuters data showed.

Bank Indonesia absorbed Rp21.5 trillion (\$2.2 billion) from the auction against a targeted Rp35 trillion. The absorption was also well below the Rp35 trillion worth of one-month paper (SBIs) maturing last week.

Under a new scheme aimed at supporting the rupiah, the central bank agreed to provide dollars directly to Pertamina, which needs the hard currency to import oil. The new system means Pertamina does not need to go to the market to meet its rising dollar needs amid increasing global oil prices.

Bank Indonesia (BI) Governor Burhanuddin Abdullah has again expressed optimism that the rupiah exchange rate would average Rp9,300 against the dollar this year.

"We are confident we can meet this target by issuing several policies," he was quoted as saying by Antara.

He said the central bank would buy rupiah in the foreign exchange market to reduce the rupiah's "volatility" and slow its decline, using different methods, such as using monetary instruments and by being active in the market.

Abdullah said the rupiah's exchange rate in the first half of 2005 was 9,556 to the dollar, higher than the 9,300 target in the state budget.

BI Awards Rp21.48t 1-mth SBIs

Bank Indonesia (BI) auctioned Rp21.48 trillion in one-month BI Certificates (SBI) at a weighted average interest rate of 8.49% against the previous 8.44%, AFX reported on Wednesday (13/7/05).

The auction absorbed 80.4% of bids. The latest SBI rate was just 1 basis point below the new benchmark reference rate, called BI rate, set at 8.5% for the next three months.

Forex Reserves

Bank Indonesia (BI) said its foreign exchange reserves fell by \$1.12 billion to \$32.74 billion as of July 7 from \$33.86 billion a week earlier due to outflows for foreign debt payment.

The central bank said in a statement that base money as of July 7 dropped by Rp1.57 trillion to Rp196.86 trillion from Rp198.43 trillion in the previous week due to seasonal factors, mainly as demand deposits at banks declined.

Over the same period, net domestic assets rose by Rp3.96 trillion to Rp38.62 trillion, it said.

Tax Revenues on Target

The government collected Rp129.4 trillion (\$13.6 billion) in taxes during the first semester, half of the year's target as projected in the revised 2005 state budget, Antara reported.

The amount, 29% more than the tax revenue in the same period last year, included Rp13.1 trillion in oil and gas income tax, Rp67 trillion in non-oil income tax, Rp43.2 trillion in value-added tax, and Rp6.1 trillion in other taxes.

Meanwhile, the government also collected Rp7.65 trillion from import duties in the first six months of the year, or 63.64% of the year's target, up 37.5% year-on-year.

Excise revenues totaled Rp14.39 trillion, 49.74% of the whole year's target, 9.78% higher year-on-year.

INVESTMENT

Foreign Investment Jumps 70%

Indonesia enjoyed a surge in foreign direct investments (FDI) in the first half of the year as its investor-friendly measures began to pay off, *The Straits Times* reported.

Between January and June this year, FDIs rose 70% to \$3.35 billion, compared to the same period last year, the National Investment Coordinating Board (BKPM) said. The figure is very close to the board's \$3.4 billion target for the entire year.

Domestic investments however fell 12% to \$0.8 billion during the first semester, compared to the same period last year, the board said.

FDI approvals from January to June grew by 71% to \$5.93 billion against the same period last year, while domestic investment approvals increased 18.07% to \$2.58 billion in the first six months against the same period last year, it said.

Board chairman, Muhammad Luthfi, said of the FDI projects approved this year, the chemical and pharmaceutical sectors took the lion's share with 21 projects valued at \$2.26 billion.

The construction sector followed with the approval of 53 projects worth \$540.7 million. The rest included the transportation, warehouse and telecommunication sectors (\$531 million), mining (\$520 million) and food industry (\$384 million).

"Clearly, confidence in the investment climate in Indonesia has improved," he said.

Britain is the source of the largest chunk of investments approved this year with a total of \$989.7 million, followed by Singapore with 108 approved projects worth \$591 million.

Christa Janjic, regional economist for UBS said the trend was clear. "Whether it is up 40% or 60 or 80 I don't know," she said. "But there is a clear trend that FDI is increasing."

Economists attribute much of the renewed investment to increased confidence in Yudhoyono's government, which has pledged to tackle problems such as corruption and pent-up demand left over from last year's elections.

The new government has yet to fulfill many of its promises to tackle obtuse regulations and other barriers to investment, said Ramesh Subramanian, Asian Development Bank's principal economist in Jakarta, but it continues to offer a more investor-friendly tone than its predecessors, something that still registers with investors, he said.

Investment Coordinating Board (BKPM) Chairman Muhammad Luthfi has guaranteed that domestic and foreign investment licenses would be processed quickly. Simplifying the country's business licensing procedures would make it more competitive in the region, he said.

Fiscal Incentives for Investors

Finance Minister Jusuf Anwar promised fiscal incentives to create a conducive climate for investment, trade and industry, even though the measure could mean lower state revenues, *Bisnis Indonesia* reported.

"We will use fiscal incentives to attract more investors despite the (move's) potential to reduce revenues. We believe the incentives will have a positive impact on the (state) budget," he said.

Such fiscal instruments would be in the form of accelerated depreciation, 0% customs tariff on supporting raw materials, and investment allowance.

\$1.3b Pulp Plant for Indonesia

South Korean timber company the Korindo Group is planning to build a \$1.3 billion pulp plant in Kalimantan next year, Asia Pulse reported.

Forestry Minister MS Kaban said Korindo has 300,000 hectares of plantation forests in Kalimantan to guarantee supply of raw material for the pulp factory.

He said apart from Korindo, a number of investors from India, Malaysia, Germany and Singapore are also studying possible investments in the country's pulp business. He predicted the country will have at least three new pulp factories in 2005 and 2006.

EC Guidebook on Investments

The European Commission (EC) has published a guidebook for European investors to study before investing in any infrastructure project in Indonesia, *The Jakarta Post* reported.

The guidebook "Investing in Indonesian Infrastructure" encourages investors to consider the power and telecommunications sectors, as they have good procedures for a fair bidding process, reasonable forms of dispute resolution and a competitive environment.

It advised that of special interest would be future multi-year construction contracts such as gas pipeline projects and, potentially, railways.

The guidebook was the work of Belgium-based consulting firm SEMA, prepared under contract for the European Commission and financed by the Asia-Invest Program of the EuropeAid Cooperation Office.

It was a response to the Indonesian Infrastructure Summit, held in January, in which the government offered 91 projects worth \$22.5 billion in the transportation, power and energy, water and sanitation, and telecommunication sectors.

Japan-Indonesia Business Magazine

The first business magazine to be published in both Japanese and Indonesian will hit the stands in August as the two countries negotiate a free-trade deal, its chief editor said.

The monthly Japan-Indonesia Economic Forum (JIEF) will have at least 40 pages with articles in Japanese covering Indonesia and articles in Indonesian covering Japan, the Agence France Presse reported.

"There still remain lots of small- and mid-sized Japanese companies that are not familiar with Indonesia," said chief editor Richard Susilo, an Indonesian living in Japan. "I hope this magazine will help promote foreign direct investment in Indonesia from more Japanese companies."

The first edition, to come out August 1 with a print run of 50,000 copies, will focus on the spa industry, to be followed by the September issue featuring the automobile industry.

The two countries agreed in June during a visit to Tokyo by President Susilo Bambang Yudhoyono to set up a study on how to double Japanese investment in Indonesia in five years.

Last week, the two countries held their first round of talks on reaching a free-trade agreement.

STATE CONCERNS

Summary

Trade between Indonesia and China rose 39.17% to \$3.76 billion in the first quarter of the year from \$2.7 billion in the same period last year. The US hopes to regain its wheat market in Indonesia, which it lost to Australia 25 years ago.

Indonesian, Chinese Trade

Trade between Indonesia and China rose 39.17% to \$3.76 billion in the first quarter of the year from \$2.7 billion in the same period last year, Antara reported.

The office of the Indonesian trade attaché in China said in a report that China's exports to Indonesia shot up 63.4% to \$1.87 billion, while its imports from Indonesia surged 21.38% to \$1.89 billion.

Indonesian oil and gas exports rose 67.77% to \$542.55 million from \$323.4 million while the export of other commodities increased 9.21%, the report said.

Indonesia's share of the non-oil/gas commodities market in China fell to 1.06% from 1.08%. Indonesia also exports crude palm oil, rubber, paper and organic chemicals to China.

Meanwhile, Indonesia has also said it will not seek to sign bilateral agreements with China outside the China-Asean Free Trade Area (CAFTA) scheme, Antara reported.

Indonesia will sign a number of memorandums of understanding (MoU) on science, technology and agriculture, but not on a bilateral FTA, Trade Minister Mari E Pangestu said.

The government believes the CAFTA scheme is sufficient to represent Indonesian interests, thus a bilateral FTA is not needed, Mari said.

US Expands GSP

The US has added eight more commodities to the list of goods it imports from Indonesia under the generalized system of preferences (GSP), the Trade Department said.

Antara reported that the commodities include edible processed animal products, ether alcohol, plywood and contact lenses.

In the first four months of the year Indonesia's exports to the US reached \$3.82 billion, up from \$3.34 billion in the same period last year.

Fishery Cooperation Scheme

Thailand has agreed to operate fishing vessels and build fish processing plants in Indonesia as a condition to renew fishing licenses, Maritime and Fisheries Minister Freddy Numberi said.

Earlier, the government announced it would not renew the operating licenses of Thai, Chinese and Philippine fishing vessels in Indonesian waters unless they build fish processing factories in the country and sell 70% of their catch to feed the local fish processing industry.

The operating licenses of the fishing vessels will expire between 2005 and 2007, Antara reported.

The present agreement requiring only foreign fishing vessels to pay fees has provided opportunities for illegal fishing, Numberi said.

1,697 Km of Toll Roads

President Susilo Bambang Yudhoyono said the government will build 1,679 km of toll roads in the next five years.

"The development of new toll roads will have multiple impacts on our economy," he said, noting that the lack of toll roads have hampered the flow of exports and imports in the country.

The country's agricultural products for export, often arrive late at the Tanjung Priok port due to heavy traffic along the Cilincing toll road, he cited.

SOEs

State Companies to be Cut

The government plans to reduce the number of state enterprises from 158 to 85 and has appointed state investment bank PT Danareksa to help restructure them, said newly appointed Danareksa president Lin Che Wei.

"I have a special mission to downsize 158 state companies to about 85 or less," AFX quoted Lin as saying.

Earlier this year, State Minister for State Enterprises Sugiharto said he plans to merge 54 state companies into 21 new entities within the next five years to boost value creation. The move is part of the government's 2005-2009 Master Plan to revitalize state enterprises.

Lin said Danareksa will gain in-depth knowledge of state companies in industries like banking, telecommunications and energy. It might form a separate subsidiary to handle the state companies.

Telkom Files SEC Report

State telecommunications company, PT Telkom, filed its 2004 earnings report to the US Securities and Exchange Commission (SEC) late Thursday (14/7/05) to meet the July 15 deadline, Dow Jones reported.

Telkom said its auditor, KPMG, completed the report, which presents its earnings based on the US generally accepted accounting principles (GAAP).

By meeting the deadline, Telkom avoided a possible trade suspension, analysts say. Telkom missed the first deadline on June 30 because KPMG had not completed the report.

The government owns a 51.2% stake in Telkom.

PTPN III's Plan to Upgrade

State-owned plantation company PTPN III has asked foreign investors to help it improve its performance under a \$120 million investment plan, according to Antara.

PTPN III president Akmaluddin Hasibuan said the company wants to become a world-class agribusiness company.

Hasibuan said investors from China, Malaysia, India and Japan have indicated interest in the proposed cooperation.

He said memoranda of understanding have been signed with investors from India for an investment of \$100 million, and with Malaysian investors to build rubber processing factory costing \$10 million.

Investors from Japan and China are interested in building panel wood factory with an investment of \$10 million each, he added.

Petrokimia Gresik Earns \$210m

State-owned petrochemical company PT Petrokimia Gresik earned Rp2 trillion (\$210 million) in the first half of the year, 50% of its Rp4 trillion target for the entire year, Antara reported.

Company president Arifin Tasrif said the achievement was significant because the factory is not operating at full capacity due to a shortage in gas supply these past three years.

He said the company's management has signed a new contract with MP Kangean to supply up to 65 million cubic feet of gas per day over a 10-year period.

In the past three years, the company has been receiving only 85% of its gas requirements.

S&P Rating for Telkomsel

Standard & Poor's Ratings Services gave a 'BB-' long-term foreign currency rating on Indonesia's leading wireless operator, PT Telkomsel, AFX reported.

At the same time, Standard & Poor's also affirmed its 'BB' long-term local currency rating on Telkomsel. The outlook on both ratings is positive.

"The positive outlook reflects Indonesia's sovereign rating," said S&P credit analyst Yasmin Wirjawan.

"As Telkomsel's rating reflects that of the sovereign, an upgrade in the rating on the sovereign is likely to result in an upgrade in the company's rating," she added.

The ratings on Telkomsel reflect material country risks and growing competition in the wireless and markets, S&P said.

Krakatau Steel Profit

State-owned steel maker PT Krakatau Steel reported a net profit of Rp414.15 billion (\$43.6 million) last year, 66% higher than its target or 277% bigger than that of the previous year, Antara reported.

Its general manager and corporate secretary Dony Sugihmukti said sales were valued at Rp9.39 trillion, or 5% above its target or 43% higher than that of the previous year.

Its production, however, totaled only 1.59 million tons falling slightly short of its target, Sugihmukti said.

Price hike, as a result of an increase in consumption mainly in China, more than offset the decline in production, he said.

Krakatau Steel plans to expand its production capacity for hot rolled coil by 1 million tons to 3.4 million tons a year in 2008, using \$350 million to \$550 million in investments, he said.

Krakatau Steel aims to raise its annual production capacity to 10 million tons by 2013.

PRIVATE SECTOR

No Plan to Sell Indosat Stake

Stressing its commitment to its long-term investments, Singapore Technology Telemedia (STT) said it is not thinking of selling its stake in Indonesia's second largest telephone operator PT Indosat, AFX reported.

"It is a long-time investment. We think Indosat will continue to grow and develop better networks for the people of Indonesia and we will be delighted to participate in the growth of the company," STT president and chief executive Lee Theng Kiat said.

Asked if the company is looking to acquire other companies, he said: "There is no new plan, but we always look at any opportunity."

STT became the largest shareholder in Indosat when it acquired a 41.94% stake from the Indonesian government in 2002.

Slight Drop in June Car Sales

Industry-wide car sales in June fell to 56,815 units from 57,863 in May due to weaker domestic demand, the Indonesian Automotive Industries Association (Gaikindo) said.

Industry-wide domestic car sales dropped to 49,322 units in June from 51,288 in the month earlier, while exports rose to 7,493 from 6,655 previously, an AFX report quoted Gaikindo as saying.

In the first half of the year, industry-wide sales rose 38% year-on-year to 333,911 units, with local sales in the six-month period up at 295,774 units from 235,133 a year earlier.

For the full year, Gaikindo has estimated domestic car sales to exceed its initial forecast of 510,000 units, compared with 483,295 in 2004.

Toyota continued to rule the road, while Mitsubishi edged Suzuki to grab the second spot in national car sales in June.

Rise in Consumer Goods Sales

Survey company AC Nielsen Indonesia predicted that sales of consumer goods in the country will rise 18% this year to Rp53.8 trillion (\$5.5 billion), Antara reported.

AC Nielsen retail service manager Febby Ramaun said the projection was based on an 18% increase in sales in the year which ended last April, from the year before. Sales grew only 14% in 2004.

She said intensive promotional campaigns by modern retail markets will contribute to driving growth faster this year.

The emergence of hypermarkets and other modern shopping malls have increased sales of consumer goods in the country.

Komatsu's Sales Rise

Publicly listed PT Komatsu Indonesia, the heavy-equipment unit of domestic automotive leader PT Astra International, announced that sales of its heavy equipment rose 36.1% in the first six months of the year against the same period last year, *The Jakarta Post* reported.

The company said it had sold 434 units of heavy equipment in the first half of this year -- comprising 142 bulldozers, 251 hydraulic excavators and 41 other heavy vehicles. In the first semester of last year, it only sold 88 bulldozers, 213 excavators and 18 other vehicles.

With the sales, the company has reaped Rp618.2 billion (\$63.31 million) in revenues, up 88.3% from Rp328.3 billion in the corresponding period of last year.

Exelcomindo Plans IPO

Indonesia's third largest cellular phone operator, PT Exelcomindo Pratama, plans an initial public offering (IPO) this year once Telekom Malaysia Bhd completes its takeover of the company, Jakarta Stock Exchange president Erry Firmansyah said.

They had discussed the idea of listing on the JSX during the second half of the year, AFX quoted Firmansyah as saying.

He said the size of the IPO has not been decided and a listing will also have to wait until after Telekom Malaysia completes the acquisition of an 80% stake in Exelcomindo in October.

Exelcomindo is 27.3% owned by Telekom Malaysia, which wants to turn it into a publicly listed company after the acquisition is completed. It is also owned by PT Telekomindo Primabhakti, which has a 60% stake, and by investment firm Asia Infrastructure Fund with a 12.7% share.

BANKS

Commerce Buys More Bank Niaga

Malaysia's Commerce Asset Holding Bhd said it has acquired an additional 109.5 million Class B shares, representing 1.39% of Indonesia's PT Bank Niaga's capital, for 17.4 million ringgit, AFX reported.

In a statement, Commerce said that following the acquisition, its interest in Bank Niaga is 63.98%, of which 1.04% is held by unit PT CIMB Niaga Securities.

Banks Urged to Help SMEs

President Susilo Bambang Yudhoyono has urged banks and local governments to help speed up the provision of loans to small and medium enterprises (SMEs) and cooperatives, Antara reported.

"Please help implement our commitments to SMEs and cooperatives. Help show them how to meet the requirements to obtain loans," Susilo said during a ceremony in Bandung, West Java to mark National Cooperative Day on Tuesday (12/7/05).

He said the government is urging banks and non-bank financial institutions to increase lending to SMEs and cooperatives to help improve the country's real sector.

He said he continues to receive complaints from small businessmen on how difficult it is for them to get loans.

Citibank, HSBC Enter Micro Credit

Bank Indonesia (BI) is reviewing a proposal tabled by Citibank and HSBC to venture into micro credit in Central Java, *Bisnis Indonesia* reported.

The two banks are interested in getting into the informal sector in the province, BI coordinator in Semarang, Khairil Anwar, said.

"We are still studying the proposal of Citibank and HSBC. It is clear however that we would not limit their operation in the micro credit market," he said.

Anwar estimated that only 30% of micro and small businesses in Central Java have obtained financing. Some 2.3 million micro and small creditors from the province have availed of Rp30.2 trillion in loans, leaving the door open for 7.6 million micro and small businesses which can avail of Rp60 trillion in loans, he said.

Investment loans in the province, until the end of May, grew 23% to Rp2.2 trillion.

OIL & GAS

Fuel Supply Normal by End-July

The country's fuel supply will return to its normal level by end of the month, state oil and gas firm PT Pertamina president Widya Purnama was quoted as saying by AFX.

Assuming normal circumstances will prevail, nationwide fuel inventory will return to the equivalent of 22 days' requirement compared to 18.5 days at the moment, Purnama said.

Pertamina Can Buy Crude from PSCs

The government has allowed state oil and gas company Pertamina to buy crude oil from its production-sharing contractors (PSCs) at market price to speed up its oil procurement, Antara reported.

Pertamina is no longer bound by the Indonesian Crude Price (ICP) in buying oil from contractors, oil and gas director general Iin Arifin T said.

Arifin said Pertamina no longer needs to rely on imports, where it faces the risk of difficulty in transport or unavailability of tankers to transport imports. The company has been importing crude oil from the Middle East to feed its oil refineries.

Pertamina chief spokesman Adiatma Sardjito however said that most PSCs refuse to sell crude oil to Pertamina with ICP, which falls below the market price.

New Refinery for Tuban

The government will build the country's 10th oil refinery in Tuban, East Java in anticipation of output from the Cepu block, *The Jakarta Post* reported.

"The government has decided to build a refinery in Tuban if oil exploration and exploitation can be done in Cepu, Central Java and in Jeruk field, south of Madura island," President Susilo Bambang Yudhoyono said.

By developing the refinery, state oil and gas firm PT Pertamina would also have more fuel depots, which would improve domestic fuel distribution, he said.

Mines and Energy Minister Purnomo Yusgiantoro said the refinery would have a capacity of between 150,000 and 200,000 barrels of oil per day, enough to process output from Cepu, expected to reach 170,000 bpd at its peak, and output from Jeruk, estimated at 50,000 bpd.

Indonesia has nine big and small refineries with a total processing capacity of nearly 1 million bpd.

The oil and gas regulatory body BP Migas has requested lower import duties on imported capital goods, such as machinery and materials, to encourage the building of expensive facilities, such as refineries and fuel depots, across the archipelago. The Finance Ministry is looking into the request.

Indonesia to Cut Crude Oil Use

With the world market price of oil at a record \$60 per barrel, Indonesia plans to halve its crude oil consumption and increase its use of liquefied natural gas and coal by 2015, senior economic minister Aburizal Bakrie said.

The government's energy diversification and conservation campaign aims to reduce domestic crude oil consumption from the present 60% of the country's total energy mix to 30% within 10 years, Bakrie was quoted as saying by Dow Jones.

The government will offset that reduction by doubling its proportion of LNG and coal use from current levels of about 5% and 15%, respectively, during the same time period.

"We've changed our thinking," he said. "The government will no longer use energy [sources] that are expensive and not widely available in Indonesia and [instead] we're going to export more oil."

Indonesia is Asia's only member of the Organization of Petroleum Exporting Countries (OPEC), but dwindling investment in oil exploration has led to falling output and has made the country a net oil importer.

The country's oil imports cost \$1.27 billion in May, the latest official statistics indicate, and in June, Indonesia's crude oil output declined slightly to 927,800 barrels per day from 968,700 bpd in May, falling short of Indonesia's OPEC quota of 1.425 million bpd, a source from the Mines and Energy Department said.

Bakrie said key to the energy plan is diverting gas reserves that state oil firm Pertamina and US petroleum giant ExxonMobil will extract from the Cepu oil block for domestic use rather than for export.

"It is important to watch how big the reserves and production of gas that can be produced out of the Cepu Exxon field [because] Cepu has a lot of gas that can be used" on Java, he said.

Indonesia and Exxon last month successfully concluded talks allowing the US company to tap the Cepu block, which holds some 600 million barrels of crude oil and an unspecified amount of LNG.

The government also is hatching a national energy-conservation policy that aims to shrink energy consumption by 20% annually beginning this year, the minister said.

MINING

Diesel Fuel Price for Miners Up

State oil and gas firm PT Pertamina raised the price of diesel fuel for mining and oil companies on July 1 to meet market prices, *The Jakarta Post* reported.

Pertamina's fuel division head Achmad Faisal confirmed the hike, saying that according to the new decree mining companies and big firms -- those consuming more than 500 kiloliters (kl) of diesel fuel per month -- must pay according to market prices.

The formula to determine the price is 15% higher than the Mid-oil Platts Singapore (MOPS), he said.

"At present, it stands at about Rp4,700 (48 US cents) per liter," he added. Before the decree, all companies were charged Rp2,200 per liter for the subsidized diesel fuel.

Faisal said that Pertamina had received a letter from the Mines and Energy Department supporting the measure. "The minister said it was unfair that export-oriented industries paid only Rp 2,200," he added.

He estimated that with such a measure, between 11 million kl and 13 million kl of diesel fuel would be procured without a government subsidy for the rest of the year, meaning the government would save at least Rp27.5 trillion.

Newmont Trial to Start

The pollution trial against an Indonesian unit of US mining giant Newmont and its top executive will start on August 5, Agence France-Presse reported.

State prosecutors on Monday (11/7/05) filed charges against Newmont's Indonesian subsidiary Newmont Minahasa Raya and its American president director Richard Ness, accusing them of dumping toxic waste into a North Sulawesi bay.

Denver-based Newmont received a copy of the criminal indictment on Thursday (14/7/05), Dow Jones reported.

"We believed the case wouldn't go forward, but we are prepared to go to trial and are quite confident of a favorable outcome," Newmont spokeswoman Heatheryn Higgins said.

North Sulawesi prosecutor Robert Ilat however believes he will win the case. "We will present people who have been afflicted by the pollution as witnesses to support our argument before the court," he was quoted as saying by the Associated Press.

Gold Resource Estimates

AIM-listed Avocet Mining PLC said it is expecting a rise in its gold resource estimates in Indonesia following exploration at the North Lanut prospect, AFX reported.

Further drilling work at the Effendi deposit, which is part of the North Lanut mine, has raised the site's estimated resource by 16,000 oz to 118,000 oz.

Elsewhere in the area, the evaluation of the Talugon deposit has identified an inferred gold resource of 50,000 oz.

The Bakan district, about 25 km from North Lanut, is also believed to hold sizable deposits, Avocet said.

At the South Sulawesi site, field work on an area covering about 115,000 hectares started after the group obtained permits from the local government.

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