

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>

**Trade and Investment News, 21 August 2006**

**Highlights**

**Politics**

- Indonesia to take active role in global peace: President
- Proposed contingent to Lebanon peacekeeping force ready to go
- Ambassador to the US says look for Iran nuclear solutions outside UNSC

**Regions**

- Accept Aceh law, President urges
- Papua Governor not opposed to creation of new province

**Economy**

- Gross domestic product up 5.2% in second quarter
- Morgan Stanley says government spending spurred growth

**Business briefs**

**Macroeconomy**

- Rising commodity prices give strong contribution
- President points to 6.3% growth in 2007
- Quicker turn-around for VAT refunds

**Investment**

- Drive for investment in bio-fuels
- Britain's carbon positive to invest in plantation forests
- Malaysia's Kumpulan Guthrie buys more plantation land
- New \$70 million factory for PT Astra Daihatsu Motor

**State concerns**

- No tax on rubber exports, official states

**Private sector**

- Manufacturing industry grows 3.07% in first half
- PT Telkomsel introduces 3G services
- No pressure on TV stations to merge

**Banks**

- Industrial and Commercial Bank of China looks at acquisitions

**Oil & gas**

- Government offers 41 new oil and gas blocks

**Mining**

- Freeport review likely next year

## POLITICS

### **Yudhoyono: Active Role in Foreign Affairs**

President Susilo Bambang Yudhoyono, in his annual state-of-the-nation speech to the House of Representatives on Wednesday, said Indonesia's global image has improved substantially since it hosted the Asia-Africa summit in April last year.

"That's why we start to take an active role in realizing global peace... such as in the Iran nuclear issue, the efforts to reduce tensions on the Korean Peninsula, and our pro-active steps in encouraging peace in the Middle East," Yudhoyono said.

He said Indonesia remains committed to supporting the Palestinian struggle for independence, while it made diplomatic efforts to end Israel's offensive in Lebanon.

"To show our commitment, we have expressed our readiness to join the United Nations' peacekeeping force to protect the Palestinians and Lebanese from Israeli attacks," he said.

Regarding the war on terrorism, Yudhoyono said domestic security conditions have improved, with no terrorist attacks occurring on Indonesian soil since early 2006, though the hunt for Malaysian terrorist Nordin Mohammad Top continues.

The president vowed to remain active in realizing an ASEAN Community by 2020, comprising the members of the Association of Southeast Asian Nations, beside improving cooperation with other countries in East Asia.

Yudhoyono also disclosed his defense and security policies, saying that he will improve cooperation with friendly countries in building defense-related industries.

"We wish in the future we can fulfil ourselves our need in the supply of main weaponry systems," he said.

### **Peacekeeping Troops Ready to Go**

With the United Nation's decision to send a peacekeeping force instead of multinational troops to Lebanon, Indonesia is poised to contribute a full infantry battalion to the United Nations Interim Force in Lebanon (UNIFIL).

But the UN appealed to European nations on Friday (18/8/06) to commit troops to the first wave of 3,500 soldiers so the mission can be balanced among Western and Muslim states.

Defense Minister Juwono Sudarsono said on Friday that the government did not want its troops involved in the disarmament of either Hizbollah or Israeli forces.

Sudarsono said Lebanese troops should neutralize weapons and rocket-launching sites. "We will back them up through UNIFIL so our troops will not be directly with disarmament in the field ... what does matter is to make UNIFIL and the Lebanese as the only ones with arms, not Hizbollah or Israeli troops. But to be there, Indonesia doesn't want to be the executors."

Malloch Brown welcomed promises from Italy and Finland to deploy troops and firm commitments from Indonesia, Malaysia and Bangladesh.

The UN hopes to send 3,500 troops within two weeks to oversee a truce and the withdrawal of Israeli troops from southern Lebanon after more than a month of fighting between Israel and Hizbollah guerrillas.

The UN wants all contingents deployed by November. The UN Security Council on August 11 authorized up to 15,000 troops, including the 2,000 there now in the UN force.

President Susilo Bambang Yudhoyono disclosed that Lebanese Prime Minister Fouad Siniora and French President Jacques Chirac had called him and asked Indonesia to help in monitoring the cease-fire.

The 1,000 Indonesian troops going to Lebanon are expected to include the president's son, First Lt. Agus Harimurti Yudhoyono, a platoon leader in the Army Strategic Reserve's West Java-based 1<sup>st</sup> Division.

## Jakarta on Iran: Look Beyond UN

Indonesia urged the international community on Tuesday (15/8/06) to look beyond the United Nations Security Council to end the Iranian nuclear crisis amid a looming deadline for Tehran to suspend all uranium enrichment activities.

"When it comes to the dealing of this issue at the global level by the United Nations, we believe that there is still room for negotiations beyond the Security Council," Indonesia's envoy to Washington Sudjadnan Parnohadiningrat told reporters.

The Security Council on July 31 adopted a resolution requiring Iran to suspend all activities related to uranium enrichment by August 31 or risk possible sanctions.

It follows a July 12 agreement to refer Iran to the council for failing to respond to a package of energy, commercial and technological incentives to suspend enrichment. Iran has said it will respond to this package by August 22.

Western powers, led by the United States, suspect Iran could be trying to build nuclear weapons, charges denied by Tehran which says its atomic program is for peaceful purposes.

"Of course by the end of this month, we will see" how the world handles the crisis, Parnohadiningrat said at a forum organized by the National Press Club.

At least until this stage, Indonesia hopes for a peaceful settlement of the issue beyond the Security Council, the envoy said, adding however, "I do not know whether a week later, things can change."

President Susilo Bambang Yudhoyono told Iranian President Mahmoud Ahmadinejad at a meeting in May that as a signatory to the Nuclear Non-Proliferation Treaty, Jakarta would abide by it "both in letter and spirit" and hoped other parties would do the same.

## Court Chief Re-elected

Constitutional Court president Jimly Asshidiqie was re-elected to a new term, and said he hopes to increase citizens' awareness of their constitutional rights and make them more familiar with the functions of the court.

"As it is a new state institution, not many people are aware of the existence of the Constitutional Court," Asshidiqie, 50, said after winning re-election by a landslide on Friday (18/8/06) for a second consecutive three-year term.

He won eight votes from the court's nine judges even though Asshidiqie himself had said it would be better for the court if "there is a leadership change." One justice abstained from voting. Asshidiqie's deputy, Laica Marzuki, was also re-elected.

"It is hard to expect the public to relish our verdicts," Asshidiqie noted. "The Constitutional Court is a new institution. The public is still wondering whether it is a friend or a foe."

## REGIONS

### Accept Bill, President Urges Acehnese

President Susilo Bambang Yudhoyono used his State of the Nation address on Wednesday (16/8/06) to urge the people of Aceh to accept a new governance law for the province.

"I want to say to all parties, please kindly accept the law as a foundation to build a more prosperous Aceh in the future," Yudhoyono said in his speech to the House of Representatives.

Former Free Aceh Movement (GAM) Prime Minister, Malik Mahmud, who stood with Vice President Jusuf Kalla at a mass gathering in Banda Aceh on Tuesday (15/8/06) to celebrate the first anniversary of the Helsinki peace accord, said that from the former separatists' position, only a small part of the law should be revised.

Mahmud said that within one year after the signing of the Helsinki accord the people of Aceh could enjoy peace. "It is the first time the people of Aceh can breathe normally to build Aceh. The progress in Aceh certainly is a part of the progress of Indonesia."

Vice President Kalla suggested implementing the law and evaluating it based on experience in the field. He said the law should be implemented soon since amendments could be made in the future.

### Concentrate on People: Papua Governor

Papua Governor Barnabas Suebu said last week that the drive to create a new province of Central Irian Jaya or Central Papua is inappropriate in the current fiscal environment.

His comments follow his revelation that 70% of the province's budget had been spent before he took office last month.

Suebu was commenting on demands from Yance Kayame, chairman of the Papua Regional House of Representatives' (DPRP) Commission A, vowing to fight for a new province.

Suebu said he was not opposing the creation of new administrative areas, but he believed any move in the current circumstances would significantly affect the regional government's budget.

He urged government officials at every level to give the people priority in their re-evaluated expenditure programs.

### E. Kalimantan Legislators Probed

Prosecutors in East Kalimantan have questioned Regional House of Representatives Speaker Herlan Agussalim and former House member Hermain Okol over alleged corruption.

Agussalim and Okol are among six legislators suspected of embezzling Rp96 billion from the provincial budget. Out of 45 House members, 20 are believed to be implicated, including former speaker Sukardi Djarwo Putro.

Prosecutors questioned the two legislators regarding their functions and duties, as well as their knowledge of the opening of a bank account on behalf of Putro.

Deputy chief of the prosecutor's office, Suroso, said his office had summoned four legislators for questioning three months ago but only Agussalim showed up.

The case is the latest in a series of investigations into corruption in regional administrations, part of the government's overall crackdown on graft.

## ECONOMY

### Growth Moves Upward

The Indonesian economy put on an unexpected 5.2% in the second quarter from a year earlier, up from the revised figure of 4.7% in the first quarter, according to the Central Bureau of Statistics, marking the strongest rise for 18 months.

The figure, based largely on improved prices for commodities including palm oil and rubber, provided a positive backdrop for President Susilo Bambang Yudhoyono's annual address to the House of Representatives on Wednesday (16/8/06).

Dr. Yudhoyono set out the planned 2007 budget, saying it assumes economic growth of 6.3%, an inflation rate of 6.5%, an exchange rate of Rp9,300 per dollar, an oil price of \$65 a barrel and oil production of 1 million barrels a day.

Total budget expenditure would be Rp746.5 trillion (\$82 billion), with 71.2% of that coming from taxes.

The budget deficit is set at Rp33.1 trillion, or 0.9% of gross domestic product. In the revised 2006 budget, the deficit was set at 1.2%.

The government plans a 4.9% increase in infrastructure-development spending to Rp66.1 trillion (\$7.26 billion) next year, together with a Rp2 trillion "risk-sharing fund" to help alleviate concerns of private investors about investing in infrastructure projects.

Reaction was generally positive. Economist Faisal Basri said the growth target of 6.3% was within "the country's economic capacity", but added that promotion of the real sector was needed, *The Jakarta Post* reported.

Morgan Stanley Economists, in an analysis by Deyi Tan, said higher government expenditure had also contributed strongly to the improved second quarter growth figure.

"2Q data appears to be indicating that Indonesia's GDP growth trend is bottoming out and the worst may be behind us," she said.

"We maintain our view that domestic demand (consumption as well fixed investments) should pick up going forward, supported by declines in interest rates and a gradual pickup in government's capital expenditure."

Figures released last week by the Investment Coordinating Board (BKPM) said realized foreign investment stood at \$3.71 billion involving a total of 563 projects for the first seven months of the year.

Actual domestic investment between January and July grew by 18% to Rp11.46 trillion (\$1.2 billion) involving 104 projects.

Resources and Energy Minister Purnomo Yusgiantoro said Wednesday the government would not raise fuel prices at least until the end of 2007, good news for consumers and industry in general.

"We realize we needed to stimulate economic growth, so we assumed there will be no fuel price hike," Yusgiantoro told a press briefing, Agence France-Presse reported.

## BUSINESS BRIEFS MACROECONOMY

### **Growth Quickens for First Time in 18 Months**

Indonesia's economic growth accelerated for the first time in one-and-a-half years, boosted by rising exports of palm oil and rubber.

Gross domestic product grew 5.2% in the second quarter from a year earlier after expanding a revised 4.7% in the previous three months, the Central Bureau of Statistics said on Monday (14/8/06), according to Bloomberg News.

Record exports in June are expected to produce higher profits for commodity producers, which analysts said had pushed growth upward.

"The global rise in commodity prices has been helping Indonesia," said Tomo Kinoshita, an economist at the Singapore unit of Nomura Securities Co.

"Cutting interest rates will boost private consumption, particularly the purchases of durable goods, which will have an affect on other industries too," he said. Bank Indonesia (BI) on August 8 cut the rate by a half point to 11.75%.

Exports rose 11.3% in the second quarter from a year earlier. Export prices for crude palm oil rose 26% to \$474 a ton the previous week, the highest since 2004, mainly on increasing demand for its use in bio-fuels.

Consumer spending, which accounts for about 65% of the economy, grew 3% in the second quarter from 3.2% in the first. Per capita income rose 12% to \$1,308 last year from \$1,166 in 2004, the bureau said.

"The domestic economy has developed greater resilience to shocks, from escalating world oil prices," BI Senior Deputy Governor Miranda Goeltom said in an interview. With inflation slowing, an interest rate at 10% by year-end is "very possible".

"Government expenditure has already started accelerating, that's another indication that the economy is going to move and we need to move the economy," Goeltom said. Government spending grew 31.4% in the second quarter from a year earlier, according to the statistics agency.

Tim Bowring, an economist at Macquarie Bank Ltd in Sydney, said "with lower rates flowing through and consumers getting used to higher petrol prices, we continue to look for a rebound in domestic demand in the second half of 2006."

### **Economic Growth, Easing Inflation for 2007**

President Susilo Bambang Yudhoyono predicted on Wednesday (16/8/06) that the country's economy would grow next year, with inflation easing and the local currency stabilizing.

He warned in a state-of-the-nation address to parliament, however, that short-term capital, which has poured into Indonesia in the last 12 months, could pose a threat if investor sentiment sours, the Associated Press reported.

He vowed to do everything possible to improve the country's investment climate, keeping up his fight against corruption and working with parliament to approve draft bills on tax and customs duties.

Dr. Yudhoyono said Indonesia's economy would likely expand by 6.3% in 2007, up from an estimated 5.8% growth rate this year. He also predicted the local currency would stabilize at 9,300 to the dollar in 2007.

Meanwhile, Finance Minister Sri Mulyani Indrawati said Tuesday a 6% to 6.5% economic growth target is realistic because economic conditions are improving. She expressed optimism the economy would pick up in the second semester, taking into account several positive signs such as increases in consumption, exports and investment, Antara reported.

## Govt. to Speed Up VAT Refunds

The government will expedite the refund of value-added taxes (VATs) to within 12 months from the submission of a claim, *The Jakarta Post* reported.

Fully compliant business taxpayers will be able to receive the tax refunds within a month, the Finance Department's Director General for Taxation Darmin Nasution said Tuesday (15/8/06), when announcing the tax office's latest regulation on the policy, to take effect immediately.

The regulation also clarifies the time period -- a month -- in which businesses must complete submitting supporting documents for the refunds. Businesses can request refunds when submitting their annual tax payment forms. Supporting documents include tax payment receipts, export and import notices, as well as freight loading and payment transfer bills.

"The processing of tax refunds became lengthy in the past because it was not clear when taxpayers had to complete submitting the supporting documents," Nasution said. "We have now sorted this out."

Compliant taxpayers will now be exempted from having to provide supporting documents and will automatically receive their tax refunds within a month. Other taxpayers will be assessed and categorized by the tax office based on their business activities, and will accordingly receive refunds within two, four or 12 months at the latest.

The government created the tax refund policy as an incentive to encourage the activities of more export-oriented industries in the country. It also was part of the recent package of policies to improve the investment climate.

## Govt. to Auction Local Bonds

The government will auction about Rp2 trillion (\$220 million) in bonds on August 22, a government official said Monday (14/8/06).

The government will offer two series, maturing in 2018 and 2023, Rahmat Waluyanto, director of the Finance Department's treasury bond management directorate, told Dow Jones Newswires. Waluyanto did not give details on the coupons of the bonds.

The government plans to raise Rp35.8 trillion net in the local and offshore bond markets this year to help finance its budget deficit. So far, it has raised Rp30 trillion net.

## Forex Reserves Up Next Year

Indonesia expects its foreign exchange reserves to increase to \$43.58 billion at the end of 2007 from an estimated \$39.5 billion at the end of this year, a government document showed on Wednesday (16/8/06), according to Reuters.

The country also expects net government bond issues worth Rp34.2 trillion (\$3.76 billion) next year, with proceeds used to help plug a state budget deficit.

## INVESTMENT

### Indonesia Counting on Bio-fuels

Indonesia is seeking more investment in industries producing energy from palm oil, sugar cane and jatropha to help create 5 million new jobs and cut government fuel subsidies, President Susilo Bambang Yudhoyono said Wednesday (16/8/06).

The government will set aside Rp1 trillion (\$110 million) to help farmers pay interest on loans they take to plant more crops that can be used to produce bio-fuels, Dr. Yudhoyono said, according to Bloomberg News. Villagers will be encouraged to grow jatropha, a plant that thrives in poor soil whose seed can be crushed to yield oil for bio-fuels.

"The government alone cannot invest in this, considering the huge cost, which is why the government is asking domestic and overseas investors to actively invest in this sector," the president said in a speech to parliament. "It will help cut the unemployment rate and fuel subsidies."

He also said the government is aware of the need to improve Indonesia's investment climate, so as to draw foreign investment amid stiff competition from other countries in the region.

The palm oil industry in Indonesia currently employs about 1.5 million people. Dr. Yudhoyono said the jobs expected to come from increased investment in the sector would be created in the medium-term.

The government, which expects to spend Rp104.3 trillion on capping fuel and electricity prices in 2006, will be able to reduce its subsidy costs next year as power plants start using other energy sources including bio-fuel, Dr. Yudhoyono said.

By 2009, all power plants on the island of Java will be using "non-fossil fuel", he said, adding that fuel subsidies may decline to Rp94.4 trillion next year as the government increases the use of other energy sources.

### Chinese Timber Investment Plan

The government is conducting a feasibility study on the plan by China Light to establish a timber-processing factory in Papua. Some of the products would reportedly support the construction of facilities for the 2008 Beijing Olympics.

The government has been engaged in a campaign against illegal logging in the province, and believes investment is more beneficial and controllable.

The Chinese government stated that it consistently "upholds and practices collective international responsibility, opposing and cracking down on illegal logging and illegal wood imports." China's State Forestry Administration spokesman Cao Qingyao was also quoted as saying by Agence France-Presse that the government imposes strict import controls.

The Indonesian Forestry Department's Director General for Forestry Production Hadi S Pasaribu said the government is still examining the Chinese firm's proposal. "So long as the company conforms to our regulations, we have no objection," he told *The Jakarta Post*.

He said the company would establish a timber estate and flooring factory, and buy 400,000 cubic meters of timber from Indonesia to support the construction of facilities for the 2008 Olympics.

## UK's Carbon to Build Plantation Forests

British Carbon Positive Ltd plans to build plantation forests in the country with a total investment of Rp1.2 trillion (\$132 million).

Director General for Forestry Production Hadi S Pasaribu said the oil and gas company will build 100,000 hectares of plantation forests in Sohe, West Nusa Tenggara and another 100,000 hectares in Dompu, East Nusa Tenggara, Antara said in a report on Tuesday (15/8/06).

Pasaribu said the project is expected to be implemented before the end of the year. He said the company management has held intensive discussions with the heads of the regional offices of the Forestry Department.

Meanwhile Malaysia's largest plantation group Kumpulan Guthrie Bhd said it has increased its stake in Indonesia with the acquisition of another 20,000 hectares of oil palm plantation land in the country.

Group chief executive Datuk Abdul Wahab Maskan said besides the conducive climate offered by Indonesia, the investment is part of a strategic move to expand its business.

"The existing land bank we have in Sumatra, Kalimantan and Sulawesi amounts to 220,000 hectares with 170,000 hectares planted with oil palm," he was quoted as saying by Malaysian news agency Bernama, on Friday (18/8/06).

Maskan said the new area is being planted with oil palm and this is expected to be completed next year. "We expect to harvest by the beginning of 2009," he said.

He said the company is also planning to build four more oil palm mills in the country at a cost of RM120 million. It has 17 mills in Indonesia.

The company is also carrying out a study on bio-diesel as it has a big potential for development. We are now in the process of negotiating with the Indonesian government to proceed with the project," he said.

He did not specify the total investment the company was making in Indonesia.

## Daihatsu Invests \$70m in New Factory

PT Astra Daihatsu Motor (ADM), one of the country's major automotive companies, is investing \$70 million in a new factory to be built in Karawang, West Java, and for expanding its factory in Sunter, North Jakarta.

Vice president director Sudirman MR said last August 11 that the new plant, which would occupy 1.2 hectares, would start operating in the first semester of 2007. "With the new investment, our annual production is expected to increase by 36,000 units to 150,000 units from the current 114,000 units," he was quoted as saying by the *Investor Daily*. He said the company is also recruiting workers for 1,400 jobs.

Sudirman said his company predicted that the country's total automobile sales, both for passengers and commercial vehicles, would reach 350,000 units in 2007

Astra Daihatsu, part of the country's giant automotive company Astra International, expects its total sales to reach 27,500 units this year, about 9.1% of total car sales, which are expected to reach 300,000 units. Its factory in Sunter produces 60 units a day.

## STATE CONCERNS

### No Tax on Rubber Exports - Official

The government is unlikely to impose an export tax on natural rubber, Deputy Coordinating Minister for Economic Affairs Bayu Krishnamurti said on Tuesday (15/8/06).

"I don't think there will be a policy to put a tax on the export of rubber," Krishnamurti said, according to Dow Jones Newswires.

*Bisnis Indonesia* reported Monday (14/8/06) that the government might impose a rubber tax after having decided to lift a value-added tax (VAT) on primary commodities, given the high rubber prices at present.

Krishnamurti confirmed the government has submitted a proposal to parliament to end the imposition of a VAT on primary commodities. He added that a rubber tax would contradict the intent of the proposed new VAT law.

"The purpose of the VAT law is to promote primary products and make raw materials for the industry more competitive, and to promote our industry, (as well as) to give incentives to farmers, who could increase their incomes," he said.

## PRIVATE SECTOR

### Manufacturing Expanded by 3.07% in H1

The country's manufacturing industry grew by 3.07% year-on-year in the first half of the year, the Central Bureau of Statistics (BPS) said.

BPS said the industry expanded by 3.09% in the first quarter of the year and 3.05% in the second quarter, compared to the same periods last year, Antara reported on Tuesday (15/8/06).

Exports instead of domestic sales have boosted the manufacturing industry, chairman of the business association Apindo, Sofyan Wanandi, said.

Quotas set by the United States and the European Union on certain Chinese products had helped Indonesia increase its exports.

The Industry Department has set the target for the country's manufacturing industry this year at 7.7%.

### Indonesia Gets 3G; Telkomsel Leads

The country's largest cellular operator, PT Telkomsel, launched its third-generation (3G) service on Tuesday (15/8/06), marking the first commercial introduction of 3G to Indonesia, reported *The Jakarta Post*.

Telkomsel signed contracts for network deployment with vendors Nokia and Ericsson, and will do so later with Siemens, to support the rollout of Telkomsel's 3G network.

Telkomsel also signed collaboration agreements with four initial content providers -- SCM, Metro TV, Bizcom and Elasitas -- to provide a large selection of content through live mobile TV services, video-on-demand streaming and video downloading.

Telkomsel president director Kiskenda Suriahardja said that Telkomsel had also entered into collaborative arrangements with another 162 local and foreign content providers.

He noted that the rollout of 3G around the country over the next three years would cost Rp3 trillion. "We are optimistic that by 2009, we will have arrived at break-even point for the overall investment," he said.

Also on Tuesday, Telkomsel launched a customer pre-registration program through which Telkomsel customers who already have a 3G-equipped phone can sign up by simply sending a text message for the chance to become part of the initial group of 10,000 early adopters to experience Telkomsel's 3G services firsthand.

As of the second week in August, the number of Telkomsel customers stood at 31.5 million and this figure is expected to reach 35 million by the end of the year, accounting for about 55% of the country's total cellular users.

## Govt. Unlikely to Force TV Stations to Merge

The government is unlikely to force TV stations with national coverage to merge, as there are signs that some of them are already on the verge of merging to boost efficiency.

While hoping to see the number of national networks fall to five or six, the government would not issue any directive requiring TV firms to merge in the foreseeable future, Information and Communications Minister Sofyan Djalil said.

"At the moment, the government can only persuade and appeal to the stations to merge. We have to leave it up to the market to decide as there is already extreme competition in the industry that leaves each station with less advertisements," Djalil was quoted as saying by *The Jakarta Post* on Monday (14/8/06).

During the previous week, Trans Corp, owner of TransTV, purchased a 49% stake in TV7 from Kelompok Kompas Gramedia to form a strategic partnership between the two firms. The two companies have said the move aims to improve their competitiveness.

It has also been reported that Lativi is seeking to enter into a relationship with another station, with ANTV currently seen as the prime suitor. After seeing several downturns, ANTV is one of the richest TV stations after Rupert Murdoch's News Corp bought a 20% stake last year in PT Cakrawala Andalas Televisi, which runs the station.

Djalil said Indosiar is also in the process of seeking to build a relationship with another station. "I think we will see more tie-ups, which will lead to mergers in the near future. This is a good start," he said, adding that three TV groups running six stations would likely emerge in the future.

## BANKS

### China's ICBC Eyes Indonesian Bank - Report

The Industrial and Commercial Bank of China (ICBC), which is aiming to list on both the Shanghai and Hong Kong bourses, plans to buy an Indonesian bank after its dual listing, the Hong Kong-based *Oriental Daily* reported, citing an unidentified source.

Chinese media reported earlier that ICBC, the country's largest bank by assets, is planning to raise as much as \$19 billion in a cross-border initial public offering, and may set identical prices for its A and H shares. The source refused to give the name of the Indonesian bank, but said it has quality assets.

The report noted that the Indonesian government has previously signaled its intention to sell the country's seven commercial banks, including Bank Danamon Indonesia and Lippo Bank Indonesia.

## **BTN Prices Rp1t Bond Yield, Plans IPO**

Bank Tabungan Negara (BTN), a state bank specializing in housing loans, has set the indicative yield of its 10-year Rp1 trillion bond issue at 25-125 basis points above the FR30 treasury bond yield. The FR30 yield stood at 11.8% on Tuesday (15/8/06).

"The wide spread is in anticipation of further interest rate cuts," BTN president Kodradi told reporters at a briefing on the firm's bond plans, according to XFN-Asia.

Kodradi said final price will be determined after the book building process, set to run from August 15-29. The bond offer period is scheduled for September 19-21, with listing on the Surabaya Stock Exchange slated for September 27.

BTN will use the bond proceeds to support expansion of its loans, targeted to reach Rp5.7 trillion this year, Kodradi said. In the first half to June, the bank extended Rp1.3 trillion in new loans.

PT Mandiri Securities and PT Standard Chartered Securities Indonesia are the underwriters for the issue.

Meanwhile, Kodradi also said the firm is planning to launch an initial public offering (IPO) in the first half of next year to raise Rp1.5 trillion to Rp2 trillion, which will also be used to boost its loans portfolio.

He said the management sent a letter to the state minister for state enterprises on August 8, outlining the bank's IPO plan but has yet to get a response.

## **Bank Ekspor to Offer Bonds**

State bank, Bank Ekspor Indonesia, unveiled plans on Tuesday (15/8/06) to offer Rp500 billion (\$55.1 million) worth of bonds to help expand its lending, reported Reuters.

The bank, with total assets of Rp8 trillion, will offer the bonds on September 25-27 and list the paper on the country's main bond exchange, the Surabaya Stock Exchange, on October 3. It made the announcement in a prospectus carried in newspapers.

The lender, which specializes in providing trade financing, had not set the coupon rate for the paper, which will consist of three maturities of between three to five years.

PT Trimegah Securities and state-owned Danareksa Sekuritas will underwrite the issue.

The bank booked a net profit of Rp200.5 billion last year, up 10% compared to a year ago. However, the figure was lower than the lender's net profit in 2003 of Rp293.7 billion.

## **Bank Jabar to Issue Bonds in H2**

Bank Jabar, owned by West Java's provincial administration, plans to issue bonds valued at Rp750 billion (\$83.3 million) in the second half of the year.

Ten securities companies, among them PT Trimegah Securities, PT Mandiri Sekuritas and PT Indopremier Sekuritas, have been invited to take part in a selection of underwriters for the five-year bonds, Antara reported on Monday (14/8/06).

Earlier, PT Andalan Artha Advisiindo and PT Dhanawibawa Arthacemerlang were named financial advisors to prepare options to raise funds to increase the bank's capital.

The two financial advisors have helped the bank prepare the launch of an initial public offering, which has been put off until next year.

## OIL AND GAS

### **New Oil, Gas Rights Opened for Bidding**

The government said it has invited bids for 41 oil and gas areas to bolster Indonesia's dwindling petroleum reserves and production.

The country wants companies to bid for exploration rights in 20 areas and plans to award 21 areas through direct offerings, the Mines and Energy Department's Director General of Oil and Gas, Luluk Sumiarso said during a forum for oil and gas investors on Tuesday (15/8/06).

The blocks being put out to tender are located in the Natuna area, South Sumatra, East Kalimantan, West Sulawesi, Lampung and West Java, Sumiarso said.

"In Natuna, the government is putting three new offshore blocks -- Tuna, Cucut and Dolphin -- out to tender, as well as three available offshore blocks -- Cakalang, Baronang and Kerapu," he added.

He said the government is also tendering the new onshore West Air Komerling block in South Sumatra, and the Southeast Mahakam, Tigau and Menatana blocks, offshore East Kalimantan.

Also on the table are new blocks in Madang, South Mandar, Sageri and South Sageri off the coast of South Sulawesi, and the Enrekang block in onshore South Sulawesi, as well as three offshore blocks in West Sulawesi -- Karama, Malunda and Mandar.

In Lampung, the offshore Lampung I block and, in West Java, the offshore and onshore blocks in Ujung Kulon would also be put out to tender.

Under the direct offering system, companies identify the blocks they wish to develop, and the government advertises to see whether there are rival bids. The government will announce the winners of exploration rights for such areas in 45 days, Sumiarso said. The government may take as long as four months to decide on the winners of areas offered through regular tenders.

About 80% of the companies offering to take blocks in the direct offer are Indonesian, he said. However, ConocoPhillips, Chevron, Total, and ExxonMobil are also among the foreign companies interested in bidding through direct offer, said R Priyono of the upstream oil and gas regulatory body BP Migas.

Speaking at the forum, Mines and Energy Minister Purnomo Yusgiantoro said about 30% of the state budget comes from oil and gas. "We'd like to continue having this contribution," he said. "I invite you to participate in this tender and hope that we can increase oil and gas production in the country."

## MINING

### **Govt. Sees Lengthy Freeport Contract Review**

The government has indicated that the process of reviewing the mining contract of PT Freeport Indonesia may not be completed until next year. "We are still waiting for the outcome of a (report

being made by a) special team formed by the House (of Representatives) to review Freeport's contract and operations, and from the Finance Department on royalty issues," Mines and Energy Minister Purnomo Yusgiantoro said, according to *The Jakarta Post*.

"The department wants to speed up the process and wrap it up as soon as possible. But we cannot do that since other institutions are also involved in the process. We hope to be able to complete it by this year, but that is unlikely to happen," he said.

Yusgiantoro refused to say what percentage of revenue the government is seeking. "In the mining sector, there is no ideal figure for revenue sharing. A zero-sum game is always in play, meaning that one party should have a higher share of the revenue than the other. For sure, the revenue share we will ask for will not deter investment in the sector," he said.

The government is also working to improve Freeport's community development programs, to allow people living near the mining concession to receive more benefits.

## Essel Mulls Buying Coal Mine

Essel Mining & Industries Ltd, a subsidiary of the \$6.5 billion Aditya Birla Group, is looking to acquire wholly or partially a coal mine in Indonesia and has short-listed about a dozen mines in the country, for which it is willing to spend \$80 million to \$150 million.

"The Aditya Birla group is actively seeking to acquire a coal mine in Indonesia and will appoint an investment bank to advise us in the acquisition in the next couple of weeks. We have identified about a dozen mines and the mandate to the bank would be to complete the acquisition process in the next six months," Aditya Birla group executive president and business head, Ravi Kastia, told *Business Standard*.

"We are looking to service export markets like India, South Korea and Japan from this acquisition but a lot depends on what kind of mine we get. If it is a coking coal mine, then the opportunities are broader but if it is merely a thermal coal mine then our options may narrow down."

The Aditya Birla Group already has five entities in Indonesia, which are primarily involved in the production of yarns, viscose staple fibers and carbon disulphide.

====\*\*\*====