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REPUBLIC OF INDONESIA

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## POLITICS

### President Wants UN Streamlined

President Susilo Bambang Yudhoyono has called for the streamlining of the United Nations bureaucracy, saying red tape often hampers efforts to effectively implement the world body's programs at the country level, *The Jakarta Post* reported.

Yudhoyono said duplication and incoherence in the UN had eroded the effectiveness of the world body in delivering assistance. He insisted that the initiation of bureaucratic reform was necessary.

"After the tsunami in Aceh, tons of food was left to rot in warehouses, along with undistributed medical supplies. This would not have happened if there was a more coherent policy on UN fieldwork," Yudhoyono said in an address to the Regional High-level Consultation on UN System-Wide Conference on Thursday (29/3/07).

Providing an example, Yudhoyono pointed to several water supply projects proposed by as many as 15 different UN bodies, which then competed among themselves for resources.

Yudhoyono said that as a result of such duplication, there had been high levels of competition among UN organizations to obtain funds from donors. "The adverse impact is that many UN programs at the country level are haunted by the uncertainty of funding," the president said.

Yudhoyono put forward a four-point proposal to reform the immense UN bureaucracy: "Reform of the UN at the country level requires the following: predictable funding for all national programs, the simplification of the administrative process of program delivery, an alignment of UN programs with national programs and the national ownership of UN programs at the country level."

The regional consultation meeting in Jakarta is part of a discussion that will contribute to the panel's report, with a final recommendation to be submitted to the UN General Assembly later this year.

Norwegian Prime Minister Jens Stoltenberg, who co-chairs the panel, said a proposed method of streamlining the UN bureaucracy was through the establishment of one UN entity in each country.

"We recommended the establishment of one UN house in each country, with one program and one budget whenever possible," Stoltenberg said.

### House Passes Disaster Relief Bill

The House of Representatives on Thursday (29/3/07) approved a bill that will introduce a new agency to manage natural disasters, *The Jakarta Post* reported.

All 10 political parties threw their weight behind the long-awaited legislation in a plenary session presided over by Deputy House Speaker Muhaimin Iskandar.

The bill was drafted by the House in response to what it called the ineffective management of national disasters over the past three years.

Parliamentarians shared the opinion that the government had to establish a non-departmental agency to replace the current ad hoc institution.

The new agency is to organize preventative measures, handle disasters in emergency conditions and conduct post-disaster rehabilitation and reconstruction work.

"In handling disasters, the permanent and independent agency is mandated to coordinate with the private sector, civil society and international aid agencies," said United Development Party (PPP) spokesman Ahmad Muqowam.

The bill tasks the new agency, which will replace the National Search and Rescue Agency (Basarnas), with providing guidelines for the prevention and handling of natural disasters, setting standards, creating facilities and reporting to the president and the House.

It also requires the agency to utilize spatial zoning and environmental laws when identifying areas prone to disasters, to campaign for preventative efforts and disaster mitigation and provide warnings to the public of possible future disasters.

The agency and its regional chapters will be equipped with search and rescue facilities, including cargo-carrying helicopters, to respond quickly to any disaster.

Under the bill, the government and local administrations are required to bar people from occupying areas prone to disasters and to design a strategy to handle incidents in such areas.

## REGIONS

### **President Wants Equality in Bird Flu Fight**

President Susilo Bambang Yudhoyono said Wednesday (28/3/07) the world should treat rich and poor countries equally in its attempt to avoid a catastrophic human pandemic from bird flu.

He said efforts at tackling the disease varied unevenly across the globe depending on an individual country's capabilities. "Such a discrepancy can be harmful to global efforts to avoid a potential pandemic," he said. "As long as there is a loophole in the system, even the best protected countries and regions are not safe."

Indonesia has raised concerns about poorer countries' access to future flu vaccines in the event of a pandemic, fearing pharmaceutical firms will develop expensive treatments that developing nations will struggle to afford. The president said that the world's response to bird flu should put "equality between countries" at its core.

"This is everybody's business, because if one is at risk, all are at risk," he said.

Dr. Yudhoyono was speaking in Jakarta at a meeting about sharing bird flu virus samples globally for tests, a process experts say enables them to track and tackle the disease.

Indonesia said earlier this year that it had stopped sharing samples with the World Health Organization (WHO) because of its concerns that drugs firms would exploit them to develop costly vaccines.

But it lifted the ban on Tuesday, following two days of international talks, after agreeing a deal with the WHO under which firms will need permission from a country for access to its virus samples.

Health Minister Siti Fadilah Supari said at Wednesday's meeting that developing countries accounted for the majority of the world's population and were the most vulnerable to a human flu pandemic.

She said there was an urgent need to determine how to "have at our disposal supplies of vaccines that are affordable and available in sufficient quantities," in the event of a pandemic.

Experts say the world lacks the capacity to produce enough vaccines to protect everyone at risk in the event of a worldwide pandemic.

## ECONOMY

### Government Looks to Higher Growth

The government will set the growth target for the economy in 2008 at between 6.6% and 6.8%, higher than this year's state-budget target of 6.3%, Coordinating Minister for Economic Affairs Boediono said on Monday (26/3/07), ahead of the passage of new investment legislation.

Boediono told an economics seminar he sees year-end inflation at 5.5-6% in 2008 compared to the 6% forecast for this year, Reuters reported.

"In terms of monetary policy, it is up to the central bank governor, but the overall trend is toward an easing, including an easing in interest rates as well as an easing in other rulings," Boediono said.

Bank Indonesia (BI) has cut its benchmark rate 10 times in less than a year, reducing it from 12.75% in April last year to 9.0% in March.

Boediono added that growth was now sustainable. "The turnaround is...for sure, and we expect it's something that will continue," he said, as reported by Dow Jones Newswires.

BI Governor Burhanuddin Abdullah made it clear that interest rates are not likely to fall further in any dramatic fashion.

He said the benchmark one-month interest rate will likely hit its bottom level of 8.50% by the end of year, he said Friday, Dow Jones Newswires reported.

"We will try to be consistent with the (government) budget target of (a benchmark) interest rate of 8.50%, so we target the BI rate to also be at 8.50% at the end of the year," Abdullah told reporters.

He said he expects March consumer inflation will slow from February's price rise.

The government raised Rp6.23 trillion (\$684.8 million) from its second retail bond issue for the year. Bids worth Rp7.2 trillion (\$790.3 million) were received.

"There was strong demand for the second retail bonds due to expectations of a downtrend in interest rates until the end of the year," the Director General of Treasury at the Finance Ministry, Rahmat Waluyanto, told reporters.

The government sold Rp3.28 trillion in bonds to retail investors in August last year, its first such issue, Reuters reported. The ministry set the coupon rate for the current three-year retail bond at 9.28%.

With the House of Representatives passing new investment legislation on Thursday, there were hopes of new interest in projects in the country.

The new investment law will give tax breaks to investors and ease bureaucratic hurdles. It aims to ease government rules and slash the number of days required to obtain land-use rights, Bloomberg News reported.

For investors planning to expand, the law also pledges tax incentives, including on income tax, and an exemption from tariffs on imported machinery.

"I would like to assure all friends and partners abroad that we are working very hard to improve the overall climate of investment and doing business in Indonesia," President Susilo Bambang Yudhoyono said before the passage of the law. "The Indonesian economy must grow."

The Investment Coordinating Board (BKPM) said it was optimistic about achieving investment growth of 15.2% this year.

"Investment is expected to grow by 15.2% this year. But we hope the realization of investment will exceed the target with the amendment of the investment law," said BPKM deputy head for promotion Darmawan Djajusman.

## **BUSINESS BRIEFS**

### **MACROECONOMY**

## **Inflation Seen Lower in March - BI**

The annual inflation rate in March is seen lower than in February, Bank Indonesia (BI) Governor Burhanuddin Abdullah said Wednesday (28/3/07).

"We have already obtained data from the statistics bureau. We extrapolate that inflation in March is lower than in February," Abdullah was quoted as saying by Reuters.

"We expect CPI this month to grow at a slower pace of around 0.5% as rice prices began to fall in mid-March," Central Bureau of Statistics (BPS) chief Rusman Heriawan said, according to an XFN-Asia report on Tuesday (27/3/07). "Other than the rice price, we don't see any significant price changes to either food or non-food products (in the month)," he added.

Danareksa economist Yudi Sadewa believes inflation for March will come even lower than that estimate. "With the price of rice seen falling by around 10% from February, month-on-month CPI may have risen just 0.22% in March and 6.55% year-on-year," he said.

Mandiri Securities economist Destry Damayanti saw CPI up just 0.22% with food prices stabilizing as the impact from floods in Jakarta in February dissipated.

The Central Bureau of Statistics is expected to announce March CPI data on Monday (2/4/07).

## **Budget Deficit May Widen to 1.5%-2%**

The 2007 state budget deficit may widen to 1.5% to 2% of GDP after an early projection for a deficit of 1.1% due to expected higher expenditure to help areas affected by natural disasters, Finance Minister Sri Mulyani Indrawati said.

The budget deficit for next year is projected at 1.7%, she said Wednesday (28/3/07), according to XFN-Asia.

She said next year's economic growth is expected to reach 6.8% from 6.3% seen for this year as a result of declining domestic interest rate.

Indrawati said the government expects the benchmark BI rate, to fall to 8.85% by the end of this year from 9% at present and should further decline to 7% to 8% next year.

Separately, Coordinating Minister for the Economy Boediono said the 2008 state budget will be focused on programs to accelerate infrastructure projects to support economic growth, create jobs, and reduce poverty level.

## BI Awards Rp19.35t Worth of 1-Month SBIs

Bank Indonesia (BI) said it has awarded Rp119.35 trillion worth of one-month BI Certificates (SBIs) at a fixed rate of 9%. The auction absorbed all bids, XFN-Asia reported on Wednesday (28/3/07).

### INVESTMENT

## Investment Law Passed

The House of Representatives on Thursday (29/3/07) passed the long-awaited investment law designed to provide various incentives for both local and foreign investors.

Among the incentives are exemptions or reductions of income tax, import duties and value-added taxes; accelerated accounting of asset amortization and depreciation; and exemptions or reductions of land and building taxes, according to a draft of the law seen by Dow Jones Newswires.

The Finance Department will issue further details on the incentives, according to the draft.

The new law aims to increase competitiveness in attracting foreign investment with regional rivals including Singapore, Thailand and China, Trade Minister Mari Pangestu said after the bill's approval.

Investment in Indonesia rose 2.9% last year, lower than the economy's 5.5% growth.

The investment law's passage is one of a series of policy measures analysts describe as essential to lure foreign investors.

Besides fiscal incentives, the law also provides for government assistance to some investors in terms of acquiring land, obtaining visas to Indonesia and securing import licenses.

Government implementation of the law will include the creation of a "one-stop" investor service facility and the reduction in the official approval process for investment licenses to 30 days from a current 97 days, Pangestu said.

Pangestu said the law will extend land ownership for investors to 95 years from a current duration of 60 years and also calls for the creation of a blacklist of potential investors unwelcome to invest in Indonesia.

Investments that will qualify for the new incentives are those that will create "many jobs, investments in industries of high priority, investment in infrastructure projects, and are located in remote areas," according to the draft.

Incentives will also be channeled to investments that bring in new technologies; are environment-friendly; promote research, development and innovation; utilize locally produced capital goods and partner with small- and medium-businesses.

## FDI Up 15% in 1Q: BKPM

Actual foreign direct investments into Indonesia rose 15% on year to around \$3 billion in the first quarter, preliminary figures issued Friday by the Investment Coordinating Board (BKPM) indicated, according to Dow Jones Newswires.

The board will issue the final first-quarter investment results sometime next week, Chairman Muhammad Lutfi told reporters.

Actual foreign direct investment fell 33% last year to \$5.98 billion, the board said in January.

The value of approved FDI, however, increased to \$15.62 billion last year from \$13.58 billion a year earlier.

## Japan Funds Infrastructure

Japan, Indonesia's largest donor country, has agreed to provide Jakarta \$847.2 million in soft loans to help finance nine infrastructure and social projects in the country.

The terms of the loans vary among the nine projects, with annual interest rates ranging from 0.4% to 1.5% and repayment periods of between 30 years and 40 years, including a 10-year grace period.

Diplomatic notes on the agreement were signed Wednesday (28/3/07) by the deputy chief of mission at the Japanese embassy in Jakarta, Satoru Satoh, and M Ibnu Said, a management expert at the Foreign Affairs Department.

"We expect that Indonesia can improve social and economic conditions and the investment climate, as well as human resources, through these projects," Satoh was quoted as saying by *The Jakarta Post*. He said Japan has been the biggest bilateral contributor to Indonesia and would continue to help the country develop.

The nine projects covered by these new loans include the construction of the North-West Sumatra inter-connector power transmission lines, double-track railroads in southern Java, the development of a national geo-spatial data infrastructure networking system in Sumatra and the construction of infrastructure in disadvantaged regions.

There is also a project to establish IT facilities at schools in Yogyakarta and build infrastructure in areas affected by the 2004 tsunami in Aceh.

The loans will also be used to fund improvements to the operational system at state power firm PT PLN, improve facilities at the Hasanuddin University in South Sulawesi and provide fellowships and research scholarships for university lecturers.

Tumpal Hutagalung, deputy director for East Asia and the Pacific at the Foreign Affairs Department, said the projects would begin this year as soon as the loans are disbursed by the Japan Bank for International Cooperation.

Japan also has approved loans of \$16 million for the construction of a mass rapid transit system in Jakarta and \$200 million for infrastructure reform and policy development.

The exchange of notes on these two loans occurred in November 2006 and last March 23, respectively.

## Indosat to Invest \$1b to Boost Growth

The country's second largest phone company, PT Indosat, has set aside a minimum of \$1 billion in capital expenditure this year to bounce back from slower growth last year.

"This year's net profit growth will be somewhat equal to income growth which is around 20%," Indosat finance director Wong Heang Tuck was reported as saying by *The Jakarta Post*.

Last year, the company, 42% owned by Singapore Technologies Telemedia, suffered a 13% decline in net profit to Rp1.41 trillion (about \$154 million) from Rp1.62 trillion in 2005.

This was despite the company's total revenue increasing by 6% from Rp11.59 trillion in 2005 to Rp12.24 trillion in 2006, with its cellular division contributing about 75.4%, its data division contributing 15.5% and its fixed phone division contributing 9.1%.

"In the first half of 2006, our performance was not good, affecting our overall result for the year," Wong said, adding that in the second half of the year, the company entered a phase of recovery.

He explained that the weak performance in the first half of the year was due to problems in integrating the Satelindo and IM3 networks with Indosat's own network, after a merger in 2005.

"However, since mid-2006, Indosat resolved these problems and has devised several marketing initiatives that will make Indosat the most innovative company in the market and regain growth momentum."

To retain momentum, the company plans to allocate an aggressive capital expenditure budget of \$1 billion, 50% of which will come from the internal budget and the remaining \$500 million from loans. "In the initial stage, we will issue bonds. After that, we will look for loans from bank syndications, dollar bonds or through other mechanisms."

Indosat marketing director Wahyudi Wijayadi said the company plans to use the fund to expand its telecommunications network, including building another 3,500 to 4,000 base transceiver stations across the archipelago.

## Germany's Metro Plans to Enter Retail

Europe's largest retail company, Metro AG, is planning to set up a network of 20 wholesale markets in Indonesia with an investment of 500 million euro (\$666.2 million), a newspaper reported on Thursday (29/3/07).

The *Investor Daily* quoted Germany's deputy ambassador in Indonesia Wolfgang Piecha as saying that the network would span Sumatra, Java and Bali.

Metro is the world's third biggest retailer by sales.

"Other than Metro, another investor from Hamburg is also planning to construct a chemical storage terminal," Piecha said after a meeting between the chambers of commerce of Indonesian and Germany.

Duesseldorf-based Metro, which has a market capitalization of \$22.6 billion, is expecting its sales to climb by 8% to 9% this year as it reaps the fruit of acquisitions made last year and grows its wholesale and electronics units.

### STATE CONCERNS

## Deal to Boost Rice Output

Indonesia has signed a research agreement with the Philippines-based International Rice Research Institute (IRRI) to boost the country's rice output, the institute said in a statement, according to Reuters.

The agreement between the Indonesian agriculture ministry and the institute would include collaborative research and training agriculture experts, the statement said.

"It will be very challenging to lift Indonesian rice production to the levels requested by the government," Ren Wang, the institute's deputy director general of research, said.

The government has said it plans to increase rice output by around 2 million tons to 36.76 million tons in 2007 from an estimated 34.5 million last year.

The agreement includes development of improved rice varieties with high yield potential and better resistance to pests and other rice varieties that can grow in extreme weather such as drought and low-temperature damage in highlands.

The agreement would also help development of a national plan for hybrid rice and collaborative research on the development and safe use of transgenic rice in Indonesia.

## **Bill Ends Govt. Railway Monopoly**

The House of Representatives on Tuesday (27/3/07) approved the railway transportation bill, allowing the private sector to take part in the rail industry.

All 10 factions of the House supported the bill in a plenary session in an effort to reform the public transportation system in the country, reported *The Jakarta Post*.

They said the rail industry has to become more competitive but continue to provide cheap transportation.

The bill allows the private sector, including multinational corporations, to take part, along with state-owned PT Kereta Api Indonesia (KAI), in providing rail transportation and the manufacture of support facilities. It requires the government to issue a regulation on the detailed participation of the private sector in the rail industry.

Putra Jaya Husein, spokesman for the House's National Mandate Party faction, said that despite the private sector's participation, the government remains the sole authority in setting train fares to ensure a cheap service.

"PT KAI and private providers must make a profit to let them survive, but the government is required to give subsidies to ensure cheap rail transportation for the public," he said.

The Indonesian Democratic Party of Struggle (PDI-P) asked the government to issue regulations to govern the involvement of the private sector in public and special rail transportation. "Private corporations should be encouraged to provide rail transportation for destinations with a high load factor and to invest in special rail transportation to create a healthy competition with PT KAI," PDI-P faction spokesman Rendi Affandi said.

Special rail transportation systems carry cargo and raw materials in industrial zones in Java, Sumatra and Kalimantan.

## **Vietnam to be Invited to Join Rubber Group**

Indonesia will seek to talk Vietnam into joining the world's three largest producers of natural rubber in regulating supply of the commodity on the world market, Antara reported.

Thailand, Indonesia and Malaysia, which together dominate the world's production of natural rubber, are grouped in the International Tripartite Rubber Company (ITRC), set up to control supply of natural rubber to the world market.

Agriculture Minister Anton Apriyantono said Indonesia will discuss the matter with Vietnam at the forthcoming International Rubber Conference and Exhibition 2007 in Bali.

SOEs

## Garuda in \$1b Deal for 25 Boeing Planes

Garuda Indonesia has signed a deal to buy 25 Boeing 737-800 jets worth up to \$1 billion, the carrier's chief executive said on Monday (26/3/07), as it moves to upgrade its fleet.

Emirsyah Satar declined to give an exact value for the deal, but told a news conference that each passenger plane costs \$35 million to \$40 million.

"This is our effort to replace our old aircraft with new ones," Satar said, according to Reuters, adding the planes should arrive between 2009 and 2012. "We have made an up-front payment of \$23 million. For the financing, we are talking with a number of creditors," he added.

The airline is targeting a Rp45 billion (\$4.95 million) net profit this year after losing Rp191 billion in 2006, and aims to increase its 2007 revenue to Rp14 trillion from Rp12.3 trillion last year.

Satar said delivery of the lightweight Boeing 787 Dreamliner it ordered two years ago would begin in 2011. In September 2005, Garuda signed a \$2 billion deal with Boeing for 28 passenger aircraft, comprising 18 narrow body 737-800s and 10 787-800s.

Meanwhile, Garuda is selecting a financial advisor from among PT Mandiri Sekuritas, PT Bahana Securities, PT Danareksa Sekuritas, PT Trimegah Securities and an unnamed company to help it divest 49% of its shares, Antara reported.

Garuda hopes to name a financial consultant soon, finance director Alex MT Maneklaran said after a meeting with legislators.

A number of investors such as the Rajawali Group and a number of foreign groups such as Lufthansa, Air Canada and the Texas Pacific Group have also indicated interest.

Secretary of the Office of the State Minister of State Enterprises Muhammad Said Didu said the divestment process is expected to be completed this year.

## House Commission Sanctions Jasa Marga IPO

The House of Representatives' finance commission has sanctioned state-owned toll road company PT Jasa Marga's plan to launch an initial public offering (IPO), Antara reported on Monday (26/3/07).

Jasa Marga plans to sell 30% of its shares to the investing public, hoping to raise Rp2.5 trillion in fresh funds to repay maturing debts.

Commission member Andi Rahmat pointed out that shares in the company, which is wholly owned by the government, will be offered directly to the investing public.

Jasa Marga finance director Reynaldi Hermansyah said House approval is still needed for the company to launch an IPO.

By the end of 2006, Jasa Marga, which has assets valued at Rp10.24 trillion, had debts totaling Rp7.85 trillion.

Hermansyah said the company has short-listed Danareksa Sekuritas, Mandiri Sekuritas and UBS Securities Indonesia as prospective underwriters.

Jasa Marga on Friday reported strong revenue growth in 2006 at Rp2.30 trillion against Rp1.92 trillion a year earlier. Net profit stood at Rp462.57 billion against Rp307.54 billion in 2005.

## **Semen Gresik 2006 Net Profit Up**

PT Semen Gresik, Indonesia's largest cement maker, reported on Friday a 30% rise in 2006 net profit, thanks to steady demand despite high interest rates last year, Reuters reported.

National cement consumption grew 1.8% last year to 32.1 million tons, slower than 4.9% expansion in 2005, as the industry was hit by higher interest rate that slowed down the construction sector.

Semen Gresik said in a statement to the Jakarta Stock Exchange it booked a net profit of Rp1.3 trillion (\$142.4 million) in 2006, up from Rp1.0 trillion a year ago.

Sales revenue rose 16% to Rp8.73 trillion last year. Operating profit rose 16% to Rp1.78 trillion in 2006 compared to the previous year.

## **Dirgantara Seeks Working Capital**

State-owned aircraft maker PT Dirgantara Indonesia is seeking a \$100 million loan to finance its working capital, Antara reported on Thursday (29/3/07).

Dirgantara vice president Rudhy M Mokombang said negotiation is in progress on a three-year loan with state banks Bank Negara Indonesia (BNI) and Bank Mandiri.

The fund will be needed to produce main equipment for defense systems, Mokombang said.

Meanwhile, secretary at the Office of the State Minister of State Enterprises Muhammad Said Didu said the government is studying the legal basis for plans to privatize Dirgantara.

## **Krakatau Steel to Increase Steel Production**

State-owned steel maker, PT Krakatau Steel, is set to increase its steel production by 15.54% to 6.12 million tons this year from 5.3 million tons last year, Antara reported on Tuesday (27/3/07).

The company said it will increase production of all of its steel products this year, with the exception of iron slab and steel wire. Its slab production is expected to fall to 1.2 million tons from 1.25 million tons in 2006.

The company also hopes to increase its sales in the domestic market to Rp11.57 trillion (\$1.3 billion) this year from Rp9.66 trillion last year.

Last year, the company posted a loss of Rp193.89 billion (\$21.5 million), which company president Daenulhay blamed on irregular supply and a surge in fuel prices.

### **PRIVATE SECTOR**

## **Hutchison Launches Mobile Services**

Hutchison Telecommunications launched mobile services on Thursday (29/3/07), the latest in a string of players seeking to grab a slice of the fast-growing market.

The local unit, PT Hutchison CP Telecom (HCPT), is hoping to sign on 1 million customers for its services, which include third-generation (3G) services that allow users to enjoy high-speed mobile data, Internet access and video conferencing.

The roll-out has started in Java and will continue with other islands, Rajiv Sawhney, president director of HCPT, was quoted as saying by Reuters.

"We have committed up to \$1 billion here. We have invested in the region of \$400 million of this budget," he said, adding that the company plans to roll out its network in Sumatra before the end of 2007 and expand to Kalimantan and Sulawesi next year.

Hong Kong's Hutchison controls 60% of HCPT while Thailand's Charoen Pokphand holds the remaining 40%. It joins existing mobile operators PT Telkomsel, PT Indosat and PT Excelcomindo Pratama.

Many analysts say it will take some time before 3G can reach critical mass in Indonesia, where most of the 65 million mobile users are still price-conscious, pre-paid customers.

Industry experts predict the number of users will top 100 million by 2010. Analysts and industry experts say phone tariffs that are among the highest in the world have hampered industry growth in Indonesia.

## **GM to Decide on Restarting Plant in H1**

US automaker General Motors Corp (GM) will decide on a possible restart of vehicle manufacturing operations in Indonesia in the first half of 2007, a senior company executive said Thursday (29/3/07).

"We are studying (restarting) production at our Bekasi plant... The study is ongoing, the study hasn't been completed, so the decision hasn't been made," GM Southeast Asia president William Botwick was quoted as saying by Dow Jones Newswires.

Botwick first announced the possible production resumption at GM's "dormant" assembly plant east of the capital Jakarta in November 2006. GM suspended manufacturing operations at the facility in March 2005 due to weak demand.

"When (the Bekasi plant) was operating it was able to produce products of very good quality so we're very interested in using that facility again," Botwick said.

GM sees Indonesia and the Bekasi plant as a possible regional manufacturing and export platform, he said. Indonesia "could potentially be a manufacturing base for certain products for Southeast Asia," he said, without elaborating.

GM and other foreign automobile manufacturers are scrambling to meet a 2008 deadline on a substantial reduction in tariff barriers for vehicles with a minimum of 40% of ASEAN-produced parts and materials.

The trade liberalization goals of the ASEAN Free Trade Area (AFTA) subject vehicles made in ASEAN countries with a minimum of 40% local content to maximum import duties of 5% by 2008.

## **BANKS**

### **Mandiri May Expand by 50% in 3 Years**

Bank Mandiri may expand assets by about 50% in the next three years through takeovers and as lower interest rates encourage companies to increase borrowing.

Mandiri expects its assets to grow to Rp400 trillion (\$44 billion) by 2010 from Rp267.5 trillion at the end of 2006, its president director Agus Martowardojo said.

The bank, 67.9% owned by the government, has hired McKinsey to help create a plan to increase assets in line with other banks in Southeast Asia, and the Boston Consulting Group to help improve productivity, he said.

"We want to become a regional champion bank," Martowardojo said in an interview with Bloomberg News on March 21. "We really need to grow our credit. We also need to grow on a non-organic basis," he said without elaborating.

He said the bank wants to increase lending to companies that are seeking to expand at home and overseas using credit made cheaper by 10 cuts in interest rates since May.

Bank Mandiri, 50th in Asia by market value, wants to catch up with DBS Group, Southeast Asia's largest bank and rival 46th-placed Bangkok Bank.

Mandiri, which has 924 branches and 21,000 employees, plans to acquire rivals with large consumer finance businesses after it meets a central bank criterion that will allow it to buy companies, Martowardojo said. He also said he wants to double the bank's market value to at least \$10 billion by 2010.

## **BRI's 2006 Net Profit Up 12% On Year**

Bank Rakyat Indonesia (BRI) said Thursday (29/3/07) its 2006 net profit rose 12% on year due to an increase in net interest income, Dow Jones Newswires reported.

Net profit for the January to December period of 2006 rose to Rp4.26 trillion from Rp3.81 trillion a year earlier. Net interest income rose 11% to Rp13.77 trillion from Rp12.43 trillion.

The bank said the increase in net interest income was supported by the increase in its total outstanding loans, which at end-December stood at Rp90.28 trillion, compared with Rp75.53 trillion a year earlier. Its net interest margin as of December 31 was 11.16%, compared with 12.15% a year earlier.

The increase in new lending, however, has forced the bank to also increase its loan-loss provision to Rp1.5 trillion from Rp400.8 billion a year earlier, slashing its net profit. The higher loan provision is to cover any possible increase in non-performing loans due to natural disasters across Indonesia, said BRI director for operations, Sarwono Sudarto.

"We expect that the bank will continue to grow this year, so that net profit for 2007 will increase by 20% on year," Sudarto said.

BRI is the country's fourth largest lender by assets.

## **POWER**

### **Indonesia Pushes On With Nuclear Plan**

The government will continue its efforts to build a nuclear power plant, despite mounting opposition from environmental groups, according to *The Jakarta Post* on Tuesday (27/3/07).

"President Susilo Bambang Yudhoyono has made it a national policy to (start) building a nuclear power plant in 2010 and start operation in 2016," State Minister for Research and Technology Kusmayanto Kadiman was quoted as saying by the newspaper. "We already have the law and related regulations (in place) to allow the nuclear plant to be constructed."

Responding to opposition from environmental groups, the minister said the government would be criticized for any action it took to head off future electricity shortages. "Some people just want to oppose anything the government does," he said. "It's been decided by the president so, as a minister, I have to carry out the program. I can only stop the program if the president changes his policy."

Kusmayanto emphasized that Indonesia's nuclear program was for peaceful purposes and being supervised by the International Atomic Energy Agency (IAEA). "We are working closely with IAEA, which will also give us recommendations on where to build the nuclear plant. We still have to study the seismic stability of any site," he said.

## OIL & GAS

### **Pertamina to Spend \$1bn to Boost Production**

State oil and gas company PT Pertamina will invest up to \$1 billion this year to increase crude oil production by more than 50% and natural gas production by approximately 70% by 2009, *The Jakarta Post* reported.

Pertamina president director Ari H. Soemarno said during a hearing with the House of Representative on Monday (26/3/07) that under the expansion plan, the company's oil production was expected to increase by 70,640 barrels per day, or 53%, by the end of 1999.

The company's gas production is expected to increase by 792 million cubic feet per day, or 70%, by the end of 2009, he said.

Soemarno said the investment will be used to develop its 170 existing wells and to drill new wells including at the Cepu block in East Java. The Cepu oil block, which is operated in conjunction with ExxonMobil Oil, is expected to start production by the end of 2008.

The company will also strengthen cooperation with strategic partners in an effort to boost oil and gas production, particularly in the development of high-cost oil and gas fields in frontier areas, which are mostly located in the eastern part of the country, he said.

Earlier this month, the company and partner Norwegian oil firm Statoil won the rights to develop an oil and gas block at Karama in the Makassar Strait.

Using Statoil technology, the companies have allocated up to \$75 million to finance exploration activities in the block, which is predicted to hold potential oil reserves of 200 million barrels. Statoil holds a 51% stake in the endeavor, while Pertamina has 39%.

Pertamina is also planning to spend \$135 million to develop the Coastal Plains and Pekanbaru (CPP) block in Riau with partner PT Bumi Siak Pusako (BSP) to increase production to 30,000 barrels per day this year from 27,000 last year, general manager for the joint operation Aulia said.

Soemarno said Pertamina is also planning to establish a joint venture with Japanese construction company Mitsui to develop its refinery in Cilacap, Central Java, with an estimated investment of between \$1.5 billion and \$1.7 billion. The refinery was expected to start operations in 2011.

Pertamina finance director Frederick Siahaan said, as quoted by Bloomberg, that the company's net income increased by 15.6% to Rp19 trillion (approximately \$2 billion) in 2006 from Rp16.46 trillion the previous year, below the company's projected target of Rp21 trillion.

With a surge in crude oil prices, the company expects its profit to increase by about 10% to Rp23 trillion this year.

## **Pertamina, Statoil To Explore South Maluku**

State-owned oil firm Pertamina and Norway's state-owned Statoil ASA have signed a memorandum of understanding for joint oil and gas exploration of the south Maluku islands area, a senior Pertamina executive said Friday (30/3/07).

"This (will be) an initial exploration in an area where there is no information (on oil and gas reserves)," Dow Jones Newswires quoted Pertamina president Ari Soemarno as of saying at the MoU's signing ceremony.

If the planned exploration of the area yields evidence of exploitable oil and gas reserves, "we will apply to the government for the rights to this block," Soemarno said, without providing any timetable for when exploration might begin.

This latest deal follows a more general joint cooperation MOU between Pertamina and Statoil signed last November. Earlier this month, the Indonesian government awarded exploration and development rights for the Karama offshore oil and gas block in West Sulawesi province to a joint venture between Pertamina and Statoil.

## **Exxon Mobil Signs New PSC in Indonesia**

Exxon Mobil Corp. on Tuesday said it signed a production-sharing contract with the government of Indonesia for the Mandar offshore block the company was awarded in 2006.

Exxon Mobil said it could now start exploration activities at Mandar, in the Makassar Strait. The 1 million acre block ranges from coastline to water depths of over 6,000 feet.

No terms of the contract were immediately disclosed. The company already has a production sharing contract in place at its Surumana block, also in the Makassar Strait.

## **Pekanbaru Partners to Boost Output**

Joint venture partners Pertamina and Bumi Siak Pusako are set to spend an extra \$135 million on the Pekanbaru production sharing contract in Sumatra in a bid to boost oil output, Upstream reported on Tuesday (27/3/07).

The cash will pay for drilling 57 wells, which is expected to increase production at the PSC to 30,000 barrels per day from the current level of 27,500 bpd, joint venture general manager Karsani Aulia said.

Karsani said the amount to be provided by state-owned Pertamina will be higher than the \$85 million invested in 2006.

The partners will continue to drill more wells in a bid to increase the output from the PSC formerly operated by Chevron (Caltex). Since 2002, the joint venture has succeeded in increasing the known reserves in the block by 40 million barrels to 150 million barrels at present, reported Asia Pulse

### **MINING**

## **Tata Power Wins Bumi Coal Deal**

India's Tata Power Co. on Saturday (31/3/07) came closer to securing long-term fuel supplies to produce cheap power by signing a \$1.3 billion deal to buy stakes in PT Bumi Resources' two coal mines, Reuters reported.

Tata Power and Bumi Resources said the Indian firm had agreed to buy 30% stakes in Bumi's PT Kaltim Prima Coal and PT Arutmin Indonesia, two of Indonesia's largest coal mines, and a related trading company.

"These particular assets were truly world-class ... not just for the coal mines themselves, but because of the infrastructure they have for shipping," Prasad Menon, Tata Power's managing director told Reuters.

"Coal is still by far the cheapest option and India has to depend on coal, both Indian and imported," he said.

The two coal mines produced 53.5 million tons of coal per year in 2006.

Tata Power said it will also buy 10 million tons of coal from Kaltim Prima Coal for two proposed power projects with a capacity to generate a total of 7,000 MW. The plants will be built on the west coast of India over next five years.

"We know that coal production at these mines can and will be jacked up considerably in the near future to anything by 20-25 million tons, frankly that's what attracted us as such assets are very, very difficult to come by," Menon said.

Tata Power generates 2,300 MW and has been eyeing coal reserves in Australia, Indonesia and South Africa to tie up supplies for its proposed 15,000-MW capacity expansion plan.

Tata Power needs about 21 million tons of imported coal, 50% of which will be addressed through this deal, S. Ramakrishnan, the company's executive director for finance, said.

Last year Bumi failed to sell stakes in the two mines to a local investment bank Renaissance Capital for \$3.2 billion after heavy rain affected performance of one of the mines up for sale.

Tata Power has three months to complete the transaction.

## **Timah 2006 Net Rp200 Bn**

Indonesia tin producer PT Timah's 2006 net profit rose 87% on year due to an increase in revenue, its chief executive officer, Thobrani Alwi, told Dow Jones Newswires Wednesday (28/3/07).

Net profit for January to December 2006 rose to Rp200 billion from Rp107 billion a year earlier. Revenue rose 20% to Rp4.08 trillion from Rp3.40 trillion a year earlier, thanks to an increase in commodity prices.

"The increase in the commodity prices and the government's stern move to ban illegal mining operations helped our performance last year," Alwi said.

He forecast Timah's 2007 net profit would double due to further expected increases in commodity prices and greater production. Timah last year produced 40,000 metric tons of tin, while this year it expects its tin output to increase to 45,000 tons.

## **Inco Sees 2007 Capex Up 33%**

The Indonesian unit of Canada's Inco Ltd. said on Friday (30/3/07) it plans to increase its capital spending 33% this year to \$146 million to develop its business. PT Inco spent \$110 million in capital spending in 2006, Reuters reported.

Indra Ginting, director of investor relations and corporate secretary of PT International Nickel Indonesia Tbk, said the company will use its own internal cash flow.

"We are very confident with our cash position at the moment and we will finance this year's capital spending from our own internal cashflow," Ginting told a news conference after a shareholders meeting.

The company said in its annual report that this year's capital spending included \$36 million on the construction of a hydroelectric power generation plant at its mining area in Sulawesi.

The firm has said the hydroelectric plant will cost about \$275-280 million and will be completed in the first half of 2010. The plant is aimed at boosting nickel in matte production to about 200 million lbs a year.

PT Inco's 2006 net profit surged 91.7% to \$513.4 million, while sales rose by 51% to \$1.34 billion compared with \$885.1 million in 2005.

## Coziron Gets Iron Mining License

Australia's Coziron Resources on Monday (26/3/07) told *Platts Commodity News* it has been granted a mining license for its Rawang magnetite deposit in Western Sumatra, by the Regent of Solok.

The company is currently working to develop an iron ore operation at the Rawang project, about 54 km from the deep sea port of Padang.

The license covers 19 sq km and encompasses an area of recent drilling which has returned elevated levels of magnetite mineralization.

Coziron said this is a significant step forward in potentially developing a low cost, small- to medium-sized high grade magnetite deposit and is in line with the company's goal to bring the project to production as soon as practical to enable early cash flow and value to shareholders, following the economic and technical evaluations of the project.

The company had signed an off-take agreement prior to the Initial Public Offer with China Kingdom international, one of China's leading international traders and processors of bulk raw products, including various minerals and nonferrous metals.

## Adaro to Produce 36M Tons of Coal In 2007

Indonesia's largest coal producer, PT Adaro Coal, will target coal output of 36 million metric tons this year, up from around 34.3 million to 34.4 million tons last year, to meet increased demand as its contracts with customers mature, a senior company official said Wednesday (28/3/07).

Adaro will produce around 38 million tons each year from 2008-2022, until the mineable coal reserves at its Tanjung mine in Kalimantan are exhausted, contract manager Geoffrey Palmer told Dow Jones Newswires on the sidelines of an industry conference.

Palmer said while demand from China and India will likely grow strongly, Adaro doesn't plan to sell more coal to the Chinese market. Adaro currently sells about 2 million-2.5 million tons to China each year - to a private-sector broker who sells the coal to power generators, he said.

"We could probably sell every pound we could produce into China, but we've made a decision that we needed to diversify our customer base, which means then you have to limit" how much coal is sold to each country, Palmer said.

Adaro sells to around 40 customers worldwide, "so if one has a problem then it's not a big deal."

Palmer said China and India will continue to use more coal, adding that each country could generate an extra 10 million-15 million tons of coal demand over the next three years to 2010.

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