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REPUBLIC OF INDONESIA

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Highlights

National

- Jakarta at high risk from effects of climate change, study finds

Politics

- Talks on possible electoral alliances increase in intensity

Terrorism

- Expert says regional terrorist elements fleeing to southern Philippines

Security

- Religious boarding schools must contribute to national security: BIN head

Law & order

- Australian sought in connection with credit card counterfeiting ring

Health

- Health ministry announces two deaths from bird flu

Economy

- Banks still healthy, limited effect from derivatives: BI Governor

Business briefs

Macroeconomy

- Government optimistic deals to be sealed soon on \$5 billion stand-by loans
- Bank Indonesia predicts 2009 inflation will be lower than targeted

Investment

- Foreign investment jumped 43.8% in 2008, investment board states
- South Korea's Lotte Shopping to invest \$800 million in retail expansion

State concerns

- Government to prioritize labor-intensive projects in 2009

SOEs

- Government prepares to sell shares in four firms this year

Private sector

- Pharmaceutical company PT Kalbe Farma looks to 11% growth

Banks

- Central bank warns banks to guard against rising non-performing loans

Power

- Second phase power expansion program to start soon

Oil & gas

- Government considers better incentives for sector

Mining

- PT Aneka Tambang to use slack market for overhaul

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NATIONAL

Jakarta 'most at risk' from climate change

Of all cities in Southeast Asia, Jakarta is the most vulnerable to the impacts of climate change, an international study said, *The Jakarta Post* reported.

The Singapore-based Economy and Environment Program for Southeast Asia (EEPSEA) ranked Central, North and West Jakarta at the top of regions prone to climate change, followed by East Jakarta.

The report, prepared by economists Arief Anshory Yusuf and Herminia A. Francisco, reveals Jakarta is vulnerable to all types of climate-change-related disasters except for tropical storms.

"It is frequently exposed to regular flooding but most importantly, it is highly sensitive because it is among the most densely populated regions in Southeast Asia," said the report.

The EEPSEA report assessed Jakarta's history of exposure to five types of natural disaster —floods, landslides, drought, sea-level change and tropical storms — in the period from 1980 to 2000, along with those of 530 other areas in Southeast Asia.

The results were drawn up by considering each area's exposure to disasters and its ability to adapt to such threats, and comparing those findings with the vulnerability assessment framework of the UN Intergovernmental Panel on Climate Change.

Other vulnerable areas in Indonesia include West Sumatra and South Sumatra, the study says.

Meanwhile in Bali, the provincial administration said it will soon establish a special board to manage natural disasters, *The Jakarta Globe* reported.

Governor Made Mangku Pastika said the board would work to minimize various social problems, including fatalities and material losses, which could result from a natural disaster.

The board was of great importance for Bali, the most popular tourist destination in Indonesia, he said. "The new board is expected to be able to map disaster-prone areas in the province and will study the possible risks of any disaster."

POLITICS

Party leaders step up maneuvering as polls near

As elections draw closer, political party leaders have intensified communications between themselves, but avoided early talks of possible coalitions, reported *The Jakarta Post*.

Chairman of the United Development Party (PPP) Suryadharma Ali last week held a rare meeting with Vice President Jusuf Kalla, who chairs the Golkar Party.

"As both Ali and Kalla are party leaders, they also discussed politics, including the possibility of a coalition," said Lukman Hakim Saifuddin, who heads the PPP's faction at the House of Representatives.

Saifuddin said a coalition with Golkar was quite likely as both parties envision promoting a similar vision to build the country.

However Ali and Kalla said they are committed to waiting for the results of legislative elections, on April 9, before any coalition decisions are made.

Meanwhile, President Susilo Bambang Yudhoyono, who has declared his bid to seek re-election, has only hinted at keeping Kalla as his running mate.

The results of the legislative elections, to be held in April 9, would be used to determine the eligibility of parties to meet the threshold to promote their own presidential and vice presidential candidates.

The 2008 presidential law says only a party or coalition of parties securing 20% of seats at the House of Representative or 25% of the popular votes in the general election will be eligible to promote their own candidate.

Another contender, the Indonesian Democratic Party of Struggle (PDI-P), has announced it will select a running mate for its chairwoman Megawati Sukarnoputri at its national meeting in Surakarta, Central Java this week.

Sukarnoputri last week met separately with Yogyakarta governor Sri Sultan Hamengkubuwono X and former Jakarta governor Sutiyoso, both presidential hopefuls.

A number of surveys have concluded that Sukarnoputri and incumbent Yudhoyono will probably square off in the presidential election.

The presidential election will be held on July 8 after the General Election Commission and the Constitutional Court agreed to move the date forward last week.

Hamis official lobbies lawmakers for additional support

Hamis spokesman Sami Abu Zuhri thanked Indonesia on Friday for its unwavering support for Palestine and expressed hope that the world's largest Muslim-majority country would keep up its assistance, *The Jakarta Globe* reported.

"We believe the war does not end here," Zuhri said after holding a meeting with People's Consultative Assembly (MPR) Chairman Hidayat Nur Wahid at his office.

Zuhri arrived in Jakarta on Thursday at the invitation of the Palestine Caucus of the House of Representatives to provide a first-hand account of the situation in Gaza following weeks of Israeli air and ground attacks.

Zuhri said recent statements by US President Barack Obama were not enough to convince Hamis that he would bring about change in Palestine. In the inaugural address on January 20, Obama said that America must play a role in ushering in a new era of peace in Middle East.

Zuhri also said Indonesia holds a strategic role in pressuring the UN to respond to the atrocities carried out by Israel in its recent military operation in Gaza, adding that Indonesia and other ASEAN members could engage in concrete measures through a UN forum to pressure Israel to end its blockade in the Gaza Strip.

Zuhri also met with House Speaker Agung Laksono on Friday afternoon. Laksono said he is pushing, in his capacity as chairman of the Asian Parliamentary Assembly, to suspend Israel's membership in the Inter-Parliamentary Union in protest over its attacks on Palestine.

First independent regent candidates inaugurated

West Java Governor Ahmad Heryawan inaugurated Aceng HM Fikri and Diky Chandranegara as the new regent and vice regent of Garut regency on Friday, reported Antara.

Fikri and Chandranegara made history in Indonesia as the first non-party affiliated candidates to be elected as regent and vice regent.

The pair won the election in late December with 535,289 votes or 55.84% defeating the pair of Rudy Gunawan and Oim Abdurrohim backed by a coalition from the Indonesian Democratic Party of Struggle (PDIP) and Golkar with 423,263 votes or 44.1%.

Although independents in other provinces have been defeated, some in landslides, many view the inclusion of independent candidates in the election process as a way to pressure political parties to show more accountability.

KPU briefs party representatives on electoral rules

The General Election Commission (KPU) on Saturday familiarized political party executives with electoral rules, Antara reported.

The rules covered such issues as campaign fund audits and campaign rally schedules.

KPU chairman Abdul Hafiz Anshary said a campaign schedule starting 21 days before the legislative election has already been drawn up.

He said that as a matter of principle, political parties had to be given equal opportunities in conducting campaigns.

"From March 17 to April 5, only three to four parties will be allowed to carry out mass campaigning in one day," he said before the representative.

At the meeting, the KPU chairman also explained seat distribution, vote counting, determining legislative members and familiarization of presidential elections on July 8 and a runoff, in case it happens, on September 8.

The KPU chief hoped all parties would communicate any problems in order to ensure smooth and peaceful elections.

TERRORISM

Jl members fleeing to Philippines: Expert

Islamist militants loyal to the Jemaah Islamiah (JI) regional group continue to flee to the southern Philippines to hide, train in explosives and gain combat experience, a regional security analyst said, Reuters reported.

A small group of Indonesians, led by two key suspects in the 2002 Bali bombings, also wants to set up a presence in southern Thailand, although this has not happened yet, said Sidney Jones of the security think-tank International Crisis Group (ICG).

"It was a push factor more than pull factor that brought them to Mindanao in the southern Philippines," Jones told foreign correspondents in Manila, adding the Indonesians, Malaysians and Singaporeans who had fled to the southern Philippines were escaping from authorities at home.

The new arrivals "were trying to get training and combat experience", she said, adding the 40-year-old separatist conflict in the southern Philippines could be a factor for the continuing presence of Islamist militants on the island of Mindanao.

"As long as there's an active war in the south, there will be a small percentage of jihadis there," Jones said.

Security officials in Manila and Jakarta believe there could be as many as 50 militants hiding in rebel areas in the southern Philippines, many of them Indonesians.

Jones said JI, which wants to establish an Islamic caliphate in Southeast Asia, had been weakened by arrests in Indonesia and the dismantling of its network in Malaysia, Singapore and the Philippines, but its operatives at large remained very dangerous.

She said authorities had information that a group of around a dozen Islamists led by Bali bombing suspects Umar Patek and Dulmatin was trying to link up, and possibly move its operations, to southern Thailand, but has been initially rebuffed by local militants there.

Internal rifts may have weakened JI as a group but individual members still remain a threat to regional security, Jones warned.

Govt. cautious on Hambali's return from Guantanamo

Indonesian-born terrorist suspect Hambali may be transferred from Guantanamo Bay to Indonesia for trial, Foreign Affairs Minister Hassan Wirajuda said, Antara reported.

The cases of all 245 detainees at Guantanamo Bay, Cuba, are currently being reviewed to determine whether they should be transferred, released or prosecuted following President Barack Obama's orders to close the detention camp within a year.

Foreign Minister Hassan Wirajuda said the Indonesian government had an obligation to ensure Hambali was being treated well but was opting for a "wait-and-see approach."

"The US authorities will decide whether Hambali is an enemy combatant. If he is considered high profile, he will be tried under military law," Wirajuda said.

Foreign Ministry spokesman Teuku Faizasyah added that before taking any measures the government would wait for a decision by the US government about the future of Hambali, who Indonesian police said was involved in the killing of 202 people in the 2002 Bali Bombing.

Hambali, also known as Riduan Isamuddin, is believed to be a leader in the regional terrorist organization Jemaah Islamiyah and was its link to al Qaeda.

Hambali was caught in Thailand in 2003 by the US Central Intelligence Agency and Thai police and later transferred to Guantanamo over allegations of masterminding a number of terrorist attacks in Southeast Asian countries, including Indonesia, Malaysia, the Philippines and Singapore.

Bali tourist areas to get CCTVs to combat terrorism

Under mounting pressure from the tourist industry and the Kuta community, the Badung regency administration has agreed to install 50 CCTV systems in neighborhoods in Legian, Seminyak and South Kuta. The cameras are scheduled to be installed by June.

Made Utama, head of the Badung Transportation Agency, said the National Police's headquarters in Jakarta would aid in the procurement and installation of the equipment.

"This effort is part of an integrated program to combat terrorism and other crimes that may occur in these busy tourist destinations," Utama said, adding that 15 additional cameras would be installed in downtown Denpasar to add to the city's existing 18 units.

Sutama said the equipment would be operated by the Bali Police.

SECURITY

Boarding schools must contribute to security: Intel head

The National Intelligence Agency (BIN), Syamsir Siregar, said that Muslim scholars, mainly Islamic boarding schools and Muslim student groups, need to contribute towards national security, *The Jakarta Post* reported.

"The state of Islamic boarding schools (pesantren) is important in supporting national security and independence," Siregar said.

Siregar argued that boarding schools have demonstrated a contribution to society through education and supporting national resilience, but warned Muslim scholars and students against hateful speech and statements that could compromise national unity.

LAW & ORDER

Australian wanted over counterfeit credit card ring

Police said they are searching for an Australian national, identified only as Peter, over his suspected involvement in an international counterfeit credit card syndicate operating out of Riau Islands, reported the *Batam Pos*.

Barelang Police in Batam, Riau Islands on Tuesday arrested four Malaysians allegedly involved in the syndicate. Information from the detainees led police to the Australian national who police say may still be in the Batam area.

Head of crime Barelang Police crime unit Himawan Bayu Aji said the suspects operated the ring over the internet, where customers could order fake credit cards for Rp1.2 million.

Aji said authorities learned of the ring after several suspicious credit card transactions were reported in the area.

Officers later traced the credit cards to the suspects and confiscated fake passports and 31 fake credit cards during the arrests.

HEALTH

Health Ministry confirms two more bird flu deaths

Two Indonesians living close to Jakarta have died of bird flu, the health ministry confirmed last week, bringing the country's death toll from the disease to 115, Reuters reported.

A five-year-old girl from Bekasi, East Jakarta died in January, while a 29-year-old woman from Tangerang, Banten, died in December, the health ministry said on its web site.

The girl from Bekasi got sick after her parents bought a chicken in a market.

The 29-year-old fell ill after visiting a market close to her house, the statement said, without elaborating.

Samples from the two women tested positive in two local laboratories, it said.

Although bird flu remains an animal disease, experts fear that the virus might mutate into a form easily passed from human to human, sparking a pandemic in which case millions could die.

ECONOMY

Banks safe from derivatives: Boediono

Indonesia's banks are still in a healthy condition and transactions in suspect derivatives remain within safe limits, Bank Indonesia (BI) Governor Boediono said, *Kompas* reported on Saturday.

He noted that the central bank had tightened monitoring of derivatives and had banned the use of 'structured' products that linked the rupiah to other currencies.

Bank Danamon is one bank that has lost significant funds from foreign exchange derivatives. The bank recorded net profit of Rp1.5 trillion (\$132.7 million) in 2008 but without losses incurred from the use of foreign exchange forward contracts, it could have achieved net profit of Rp2.3 trillion. The 2008 result was down from Rp2.11 trillion in 2007.

The decline was due to the bank taking a charge for a one-time loss of Rp800 billion on forward foreign exchange contracts, Sebastian Paredes, Danamon's president director, said on Wednesday, *The Jakarta Globe* reported.

Under the hedging arrangements, Danamon acted as an intermediary between its customers and overseas hedging counterparts. Many of the customers were investors in the local palm oil sector who defaulted on the structured forward foreign exchange contracts, resulting in the bank having to bear the losses, Paredes said.

"Other banks may have similar problems, but not so many and the losses should not be too large," Miranda S. Goeltom, BI senior deputy governor, noted. "It's not like what happened in Mexico, Brazil or Korea."

Meanwhile Fitch Ratings on Tuesday said it had retained Indonesia's BB sovereign rating, noting that risks from its external financial position were offset by the strength of its fiscal discipline, Reuters reported.

The outlook is stable and the rating is unchanged since the rating agency raised Indonesia's rating by a notch last February to BB, two notches below investment grade.

Indonesia's external debt and refinancing needs were significant given the present tightness in global financial markets and declining foreign exchange inflows, it noted.

Finance Minister Sri Mulyani Indrawati confirmed that the government would progressively reduce the amount of liquefied natural gas sold on export markets and increasingly use it to feed growing demand in the domestic market.

President Susilo Bambang Yudhoyono meanwhile officially launched the much-delayed free trade zone for Batam, Bintan and Karimun in Riau Islands.

"All necessary legal supports are now there to turn the islands into a free trade zone," said Yudhoyono, *The Jakarta Post* quoted him as saying.

Companies operating in the islands will no longer pay value-added tax (VAT), import duties and luxury tax, spurring hope that more foreign businesses will invest in the islands to tap low production costs.

BUSINESS BRIEFS MACROECONOMY

Govt. optimistic \$5B in loans approved in Q1

The government is optimistic development partners will approve its proposal for \$5 billion in standby loans in the first quarter of 2009, senior finance ministry official Anggito Abimanyu said on Wednesday, Antara reported.

"In principle, some of them have agreed to it but we are still waiting for the results of meetings to be held by each of the partner countries or multilateral institutions. In principle, there has been progress," Abimanyu said.

The government wants to secure the \$5 billion in standby loans to fund the 2009 deficit if growth starts to slip.

The government has projected the 2009 budget deficit to increase to Rp132 trillion or 2.5% of the gross domestic product (GDP) from Rp80 trillion as originally planned.

The deficit is expected to grow due to lower receipts, particularly taxes, as the result of an economic stimulus package.

2009 inflation likely below forecast: BI

Indonesia's inflation this year may fall below an earlier forecast, a central bank deputy governor said on Thursday, amid slowing demand in the economy and lower prices for fuels, Reuters reported.

Bank Indonesia (BI) senior deputy governor Miranda Goeltom predicted consumer inflation would decline to 5%-6% at the end of 2009. This compared to a central bank forecast on January 7 that year-end inflation would be 5%-7%. Annual inflation was 11.06% in December 2008.

BI, cut its key interest rate by 50 basis points to 8.75% on January 7, more than expected, as inflationary pressures eased as well as to spur growth.

The Central Statistics Agency (BPS) expects this month's inflation to be negative, due mostly to recent fuel-price cuts and steady food distribution, Chairman Rusman Heriawan said on Monday.

"Prices in January may be negative and could be better than in December, which was a negative of 0.04%," Heriawan told reporters.

Oil, gas, geothermal biggest state income contributors

Finance Minister Sri Mulyani Indrawati said the oil, gas as well as geothermal energy sectors would remain the biggest contributors to the 2009 state budget, Antara reported.

State income from the sectors for the 2009 budget would account for around 1.4% of the country's gross domestic product (GDP) or Rp71.7 trillion, Indrawati said on Wednesday.

She said income from taxes in the sectors would reach Rp32.6 trillion or around 45% while from non-taxes Rp39.1 trillion or about 55%.

Indrawati hoped the targets could be realized by maximizing the performance of the oil, gas and geothermal industries. "These industries continued to grow in the past five years reaching 7.2%," she said.

Indrawati also said on Wednesday the government plans to cut its spending this year after the sharp fall in global crude oil prices, Asia Pulse reported.

Indrawati said the adjustments were needed especially with an increase in incentives necessitated by the global financial crisis and utilization of unspent budget funds in 2008 to help reduce a widening state budget deficit.

Earlier, Vice President Jusuf Kalla said the 2.5% deficit proposed for the 2009 state budget could still be reduced if spending is re-evaluated.

State spending could be reduced by efficiency in use of the state budget, head of the fiscal policy agency Anggito Abimanyu was quoted as saying by *Bisnis Indonesia*.

INVESTMENT

Indonesia FDI surges by 43.8% in 2008

Indonesia's foreign direct investment in 2008 rose sharply by 43.8% to \$14.87 billion from 2007, according to data from the Investment Coordinating Board (BKPM), Xinhua reported.

Most of the investment was in the sectors of transportation and communication, it said.

Earlier, Reuters reported BKPM chairman Muhammad Lutfi as stating that total investment, including both foreign and domestic commitments, reached \$17 billion in 2008.

Lutfi said however that the government has revised down its investment target this year to \$17 billion from the previous target of \$20 billion.

Lotte Shopping to open 26 new Indonesia stores

Lotte Shopping Co. plans to invest up to Rp9 trillion (\$804 million) to open 26 new outlets in Indonesia up until 2013, a company official said Tuesday, Dow Jones reported.

PT Lotte Shopping Indonesia president director Moon Young-pyo told reporters the new stores will boost its total outlets in Indonesia to 45. "We will also double the number of (lines of) goods sold to 30,000," Moon said.

South Korea's largest department store chain operator by sales entered the Indonesian market last year by acquiring PT Makro Indonesia.

Meanwhile, local retail company PT Ramayana Lestari Sentosa indicates sales of Rp5.523 trillion in 2008, 12.9% higher than Rp4.893 trillion in 2007, StockWatch reported.

Danareksa Sekuritas said in an analysis report that Ramayana is expected to record sales growth of 3.8% in 2009 at Rp5.731 trillion, supported mainly by new stores that will be opened in 2009.

The company's net profit is expected to grow by merely 1% in 2009 at Rp403 billion versus the 2008 projection of Rp400 billion.

Earlier, Danareksa set the company's 2009 sales and net profit targets at Rp6.4 trillion and Rp446 billion, but the targets have been revised on worries about retail sales outlook due to the negative impact of the global economic slowdown.

President launches Riau Islands' free trade zone

President Susilo Bambang Yudhoyono has officially launched the delayed free trade zone for Batam, Bintan and Karimun in Riau Islands, *The Jakarta Post* reported.

"All necessary legal supports are now there to turn the islands into a free trade zone," said Yudhoyono, accompanied by Trade Minister Mari Pangestu and Investment Coordinating Board chairman Muhammad Luthfi.

Companies operating in the islands will no longer pay value-added tax (VAT), import duties and luxury tax, spurring hope that more foreign businesses will invest in the islands to tap low production costs.

"If you hear there are still obstacles to doing business here, including illegal fees, please inform me directly. I will take stiff action against those who dare to disturb the business community here," he said.

President Yudhoyono also inaugurated eight projects in the manufacturing sector worth \$604 million, three in the tourism sector valued at Rp250 billion (\$22.3 million) and one port project worth Rp 1.2 trillion, as well as two hotel expansion projects worth \$30 million. The projects will create more than 12,000 new jobs.

Riau Islands Governor Ismeth Abdullah said that legal uncertainties for foreign investors, who had earlier been reluctant to invest, were now settled.

Abdullah said investment in the Riau Islands now exceeded \$11 billion from more than 1,150 foreign companies.

In 2007 Riau Islands attracted about \$1 billion in new investment, more than double the \$484 in 2006. Karimun alone attracted \$700 million last year.

STATE CONCERNS

Govt. to prioritize labor-intensive projects in 2009

The government would give priority to the implementation of state's program and projects which can absorb a great number of workers and employees in 2009, chairman of the National Development Planning Agency Paskah Suzetta said on Thursday, Asia Pulse reported.

"We will not reduce the ministry's budget. Instead, we will support projects which can absorb many employees in 2009," Suzetta said.

"The fiscal stimulus to accelerate infrastructure development will also be raised in 2009," he said.

Funds for infrastructure will be taken from the second fiscal stimulus of Rp15 trillion and will be used to construct roads, irrigation schemes, bridges and aqueducts.

Most of the funds will be given to the Public Works Ministry and the rest to the Transportation Ministry, he said.

Separately, the Public Works Ministry said it would receive Rp3 trillion (\$272 million) in fiscal stimulus funds to speed up implementation of a number of infrastructure projects that will create 100,000 jobs.

With the stimulus fund, the ministry has Rp41 trillion to spend, including Rp38 trillion set in the state budget.

The government has announced it will set aside Rp27.5 trillion in fiscal stimulus funds for the real sector in 14 business areas in a bid to cushion the impact of the global financial crisis, *Bisnis Indonesia* reported.

Minister calls for eco-friendly palm oil plantations

Agriculture minister Anton Apriyantono has called for continued development of eco-friendly and sustainable palm oil plantations in view of the good prospects of the palm oil market, Antara reported.

"Palm oil plantations are proven to have played a significant role in the national economy such as in alleviating poverty, reducing unemployment and in regional development," he said in a written address to the 7th national meeting of the Association of Indonesian Palm oil Businessmen (GAPKI) on Thursday.

He said he also believed palm oil plantations helped solve global problems, namely promoting self-sufficiency in food and energy and environmental sustainability.

He admitted oil palm plantation development efforts were currently facing more complicated challenges due to the global financial crisis, which had caused the price of plantation commodities including palm oil to drop.

He urged plantation operators and particularly palm oil producers to increase efficiency so that the commodity could be sold at a minimum production cost, adding that all stakeholders including the governments of producer countries needed to work together.

Examples of cooperation models included implementation of the Roundtable on Sustainable Palm Oil (RSPO) concept, RSPO certification of and discussions to meet EU Directives on production standards.

Govt. to use CSR funds for community improvements

The government, in cooperation with the Corporate Forum for Community Development (CFCD), will use state-owned and private companies' Corporate Social Responsibility (CSR) funds for village reconstruction programs, Antara reported.

"The program will be conducted as pilot projects at the district level," Public Housing Minister M.Yusuf Asyari said on Tuesday.

According to Asyari, the program will be coordinated by the Social Affairs office.

Gunawan Sumodiningrat, Director General of Social Employment at the Social Affairs Ministry, said all districts will be included in the program and a management board will be formed in every district for the program.

Sumodiningrat said Jakarta would be the first area where the project will be implemented. CFCD's secretary general, Iskandar Sembiring, said one of the main goals will be to meet the millenium development goal target of cutting poverty by 50% by 2015.

SOEs

Govt. to sell shares in four firms

The government plans to sell its stakes in four companies this year, but is dropping a proposal to sell shares in flag carrier PT Garuda Indonesia, a senior government official said Thursday, Dow Jones reported.

The four are steel maker PT Krakatau Steel and three plantation companies.

"We are focusing on selling stakes in the four companies to the public this year, depending on the market situation," Said Didu, secretary at the State Enterprises Ministry, told reporters.

Didu did not provide details on the size of the stakes the government plans to sell in the companies.

He said the government has decided to cancel its plan to sell Garuda via an initial public offering this year as the company has not yet made adequate preparations.

Telkom asks competitors to help fund next satellite

State-owned telecommunication company PT Telkom has invited its competitors to jointly invest in a new satellite to expand Internet access and other means of communication, *The Jakarta Post* reported.

"We have offered several local telecom firms to join in financing the establishment of Telkom-4," Telkom's head of infrastructure division Sarwoto Atmosutarno said Thursday.

"We offer this project to our competitors because we believe telecom firms can work together to develop the country's telecommunications backbones."

PT Indosat, the country's second largest telecom firm, was among the firms approached, Atmosutarno said.

PRIVATE SECTOR

Kalbe Farma set to post 11% increase in turnover

Publicly traded pharmaceutical company PT Kalbe Farma is set to chalk up an 11% increase in sales this year from an estimated Rp7.8 trillion (\$709 million) last year, Asia Pulse reported.

The company could not estimate net profit this year as it depends partly on the stability of rupiah, the company's corporate secretary Vidjongtius said.

He said the company has set aside Rp300 billion in capital spending this year.

Meanwhile, the company has refused JP Morgan's claim that Kalbe Farma violated a derivative transaction agreement worth \$19.2 million, and has decided to sue the foreign bank, StockWatch reported.

Kalbe Farma's president Irawati Setiady said the management had never approved and signed the International Swap Dealers Association master agreement so it is impossible for the company to violate the agreement.

Astra Agro's Q4 crude palm oil production falls 12%

PT Astra Agro Lestari, Indonesia's biggest agricultural company by value, reported crude palm oil output fell 12% in the fourth quarter because peak production occurred earlier in the year, Bloomberg reported.

"Peak production of our trees in 2008 moved to June-August while in 2007, it happened in the fourth quarter," resulting in a year-on-year decline in fourth-quarter output, Tjahyo Dwi Ariantono, head of investor relations, said on Wednesday.

Output in the three months through December was 246,000 metric tons compared with 278,600 tons the year earlier, the company said in a statement on its web site.

In 2008, output climbed 6.6% from the previous year to 981,538 tons, the statement said. Astra Agro plantations yielded 20.68 tons of fresh palm bunches per hectare in 2008, a 2.9% gain in production from the previous year.

Bakrie Telecom's BTS sale likely completed this month

The sale by PT Bakrie Telecom of 543 base transceiver stations (BTS) is very likely to be finalized next week, the company's director of corporate services Rahmat Djunaidy said on Tuesday, StockWatch reported.

Djunaidy said only three of an original six companies are participating in the BTS tender. "We're still in the process this week, we expect to finalize the tender this week," he said.

He said the company is unable to announce the names of the remaining tender participants. "We are bound by the agreement with the bidders that we should not mention their names to avoid pressure," he said.

The six bidders were Solusi Tunas Pratama, Tower Bersama, Protelindo, Retower, Padi Mekatel and Powertel. "We will pick the highest bid price. Now we're studying the tender rule if it is possible for the bidders to merge," he said.

Bakrie Telecom expects to raise approximately Rp380.20 billion from the tower sale, which is a minimum price for 123 greenfield towers that are worth Rp115.62 billion and 420 rooftop towers that are valued at Rp264.6 billion. The company will use the proceeds to finance its 2009 capital expenditure of \$200 million.

Bakrie Telecom has 2,490 BTS units, of which 70% are owned jointly with other telecommunication operators.

Indosat's 2009 capex level with 2008

Telecommunication company PT Indosat's capital expenditure (capex) in 2009 will not be higher than 2008 considering domestic economic and political conditions, marketing director Guntur Siboro said, StockWatch reported on Friday.

Until September 2008, Indosat had used \$980 million of capex or 70% of the total of \$1.4 billion. Approximately 85% of the capex has been allocated for expanding the company's cellular business.

Siboro also said Indosat is set to chalk up at least 12 million new subscribers this year, Asia Pulse reported on Tuesday.

Indosat, which is 40.8% owned by Qatar Telecom, is expected to grow by at least the same amount as in 2008 even if the country suffers an economic contraction, Siboro added.

In 2008, Indosat was estimated to have grown 11%-14%, he said, adding that by September the company had 35.5 million subscribers including 11 million new subscribers, *Investor Daily* reported.

BANKS

BI warns to anticipate rising credit risks

Bank Indonesia warned the banking industry of rising credit risks, as borrowers may find it hard to repay their loans on time due to the global economic slowdown, *The Jakarta Globe* reported.

"Our main concern is rising credit risk," Halim Alamsyah, Bank Indonesia director for banking research and regulations, said on Friday.

"Lenders will face credit risk problems since some of their debtors will feel the impact of the global crisis."

He said another factor that would contribute to the possibility of increasing bad loans in 2009 was slowing credit growth, followed by decreasing loan quality. The central bank earlier predicted that the average non-performing loan ratio would rise to about 5% and loan growth would decrease to 19% in 2009.

The trend of increasing bad loans began during the fourth quarter of 2008. According to central bank statistics at the end of November, lenders' nonperforming loans edged up to 3.49% of total outstanding loans from the previous month's 3.34%.

Export-oriented industries and the commodity sector were the main contributors to rising bad loans. The manufacturing sector's non-performing loan ratio soared to 11.4% to Rp17.4 trillion (\$1.56 billion), from Rp 15.6 trillion the previous month. Total loans in the sector stood at Rp283.45 trillion at the end of November.

Meanwhile, year-on-year credit growth as of end of November decreased to 37.7% from October's 38.5%.

Mandiri, BNI cut lending rates to real sector

Bank Mandiri and Bank BNI have started cutting their lending rates in response to the central bank's rate cut, *The Jakarta Post* reported.

In a statement sent late Monday, Mandiri corporate secretary Sukoriyanto Saputro said the bank cut lending rates up to 0.5%, starting Tuesday, to help stimulate the real sector.

"Mandiri has reviewed lending rates thoroughly and decided to cut the rates of rupiah-based loans in all segments up to 50 basis points," he said.

President director Gatot M. Suwondo said BNI cut its lending rates, also starting Tuesday, between 0.5% and 1% for all segments. BNI's lending rates currently range between 13% and 17%. Deposit rates were also cut by 0.5% on average.

"What is most important is to accelerate real sector growth. The lending rates will always be monitored by considering the risk factor," Suwondo said.

The central bank cut its interest rate by 50 basis points to 8.75% earlier this month and has been urging the private sector banks to follow suit.

As of the end of November last year, Mandiri and BNI together channeled over Rp270 trillion in loans, making up just over 20% of total credits extended by the banking sector.

Shariah banking assets predicted to grow 25%

Bank Indonesia (BI) has predicted that assets of shariah banks in Indonesia will rise 25% to Rp51.1 trillion (\$4.6 billion) this year, slower than the 40% growth seen last year, Antara reported.

The performance in 2008 was spectacular amid the global economic slowdown, BI's shariah banking director Ramzi A. Zuhdi said.

This year growth is expected to be slower as the shariah banking industry will also suffer under the global financial crisis, Zuhdi said.

The strong growth in 2008 was marked by a surge in shariah financing and an increase of third party funds, he said.

Based on BI data, shariah banks posted Rp34.42 trillion in third party funds by November 2008, up from Rp28.01 trillion in 2007, *Bisnis Indonesia* said.

POWER

Second phase power program to start in Q2

Vice President Jusuf Kalla has ordered the start of the second phase of power plants with a combined capacity of 10,000 MW in the second quarter of 2009, Energy and Mineral Resources Minister Purnomo Yusgiantoro said following a meeting at the vice presidential palace on Wednesday, Antara reported.

Unlike power plants built in the first phase, 74% of the power plants to be built in the second phase will use renewable energy and the remainder coal, Yusgiantoro said.

In total, 99 power plants to be built in the second phase would consist of 45 in Java and Bali with a capacity of 4,000 MW and 54 in the rest of the country with a capacity of 6,000 MW, he said.

Yusgiantoro said \$3.8 billion of the funds needed to construct the power plants would come from state power company PT PLN and \$13.5 billion from the private sector.

"The construction of the second phase of power plants with a capacity of 10,000 MW is expected to be completed by 2012," he said

Separately, PLN president director Fahmi Mochtar said on Wednesday that a consortium of regional development banks (BPDs) is ready to provide Rp4.6 trillion for the construction of PLN power plants.

"We have almost completed our negotiations so that the funds are expected to be disbursed in the first quarter of this year," Mochtar said, adding that the funds would be used to build a power project outside Java.

Five of 22 projects waiting for the disbursement of funds are PLTU Lampung, PLTU 2 North Sumatra, PLTU 1 West Nusa Tenggara, PLTU Gorontalo and PLTU 2 North Sulawesi.

PLN plans to raise Rp30 trillion (\$2.7 billion) from loans and bonds this year to help finance capacity expansion, Bloomberg reported.

"We have not decided the structure of the bank loans and bonds," Mochtar said. "If the market is good we may sell bonds, and we will determine the terms of the notes at the end of this quarter."

PLN expects to post first-ever profit

State power firm PT PLN announced Wednesday it was targeting to book Rp1.7 trillion (\$151.3 million) in net profits this year, the first profit since it was established, *The Jakarta Post* reported.

"We expect PLN to book its first profit this year," PLN president director Fahmi Mochtar told reporters after a meeting with the government to discuss the company's annual work plan.

In 2008, PLN generated Rp83.8 trillion in sales revenue and booked Rp3.57 trillion in operating profits. The figures are higher than its initial targets to book Rp79 trillion and Rp536 billion in sales revenue and operating profits, respectively.

In 2008 the company suffered a Rp5.6 trillion net loss, 6.7% lower than the Rp6 trillion loss booked a year earlier.

The company in part attributes its prolonged history of losses to the assumption that it should sell power at subsidized rates.

OIL & GAS

Govt. to reevaluate incentives for oil and gas sector

The government said it would reevaluate incentives in the oil and gas sector taking into account the contribution of the sector to the country's economy, Asia Pulse reported.

Coordinating Minister for Economy Sri Mulyani Indrawati said incentives have been provided for investment in the oil and gas and geothermal sectors such as in the form of import duty exemption for exploration equipment.

The government will give further incentives exempting capital goods needed in oil and gas and geothermal investment from import duties, she said.

The incentives have been modified to be provided this year mainly for export-oriented businesses and could create many jobs, she added.

Director General of Oil and Gas at the Energy and Mineral Resources Ministry Evita Legowo, told Dow Jones Newswires the government is planning two alternatives, in addition to its current production-sharing system. One is a royalty method being used by many oil-producing countries and the other a combination of tax and royalty.

Indonesia currently applies a production sharing system in which it mostly takes 70% of the net revenue of the oil blocks and 60% from the gas.

Legowo said that the government hopes to offer between 10 and 15 new oil and gas blocks this year but said she could not give any names of the areas as yet.

Most oil and gas investors have expressed their intention to go ahead with their exploration plans this year despite weakening global oil prices, she said.

Incentives plan for CBM

The government is mulling fiscal incentives to attract investment in coal-bed methane (CBM) projects, Finance Minister Sri Mulyani Indrawati said Wednesday, Dow Jones reported.

Chris Phillips, president and chief executive at Vico Indonesia, said that tax incentives would help boost investment to unlock CBM in the country.

Indonesia's total CBM resources are estimated at 453.30 trillion cubic feet, trapped in 11 basins, mostly in Sumatra and Kalimantan.

Last year, the government awarded 29 oil and gas blocks and seven CBM concession areas to local and foreign investors.

Pertamina plans to export diesel oil

State-owned oil and gas company PT Pertamina plans to export diesel oil this year following a decline in domestic demand, the company's chief said, Antara reported.

"Domestic demand for diesel oil, especially from state electricity company PLN, has dropped so that part of our diesel oil output will be exported," Pertamina president director Ari Soemarno said on Friday, adding the company was making efforts to get overseas buyers for its diesel oil.

PLN had reduced purchases of diesel oil for its power plants and switched to gas, Soemarno said, adding that in 2008 PLN had bought a total of 11.4 million kiloliters of fuel, consisting of diesel oil and residue oil.

But in 2009, PLN's need for the fuel was expected to drop to 7.9 million kl, about 70% of which would be diesel oil and the remaining 30% residue oil.

Soemarno said PLN had been replacing diesel oil with residue oil, causing a decline in its power plant's need for diesel oil.

Exxon, Chevron sign deals on domestic gas supply

US major oil companies ExxonMobil and Chevron have signed deals worth \$6.76 billion to supply gas to domestic industries in Indonesia, *the Jakarta Post* reported.

ExxonMobil signed two deals worth \$1.4 billion and \$1.7 billion respectively to supply gas to fertilizer maker Petrokimia Gresik and state power company PLN from the Cepu offshore block, while Chevron will supply gas worth \$1.6 billion from its production sharing contracts in East Kalimantan to local fertilizer group Pupuk Kaltim.

The agreements were signed on the sidelines of the International Indonesia Gas (Indogas) conference and exhibition.

The deals come a day after Finance Minister Sri Mulyani Indrawati said the government would prioritize gas production for undersupplied domestic markets rather than export in coming year as the demand for the fuel in the country was expected to rise in line with growth in local industry and a growing middle class.

She said the country had no option but to supply burgeoning local needs, despite strong foreign demand for its gas.

Data from the Upstream Oil and Gas Regulator BP Migas shows that demand for gas will rise steadily at a rate of 2.8% annually, reaching 6 billion cubic feet per day (cfpd) by 2020. The government has targeted gas production to reach 7.32 billion cfpd this year, lower than last year's production of 7.9 billion.

The share of total gas production used for domestic needs has increased significantly from 29.6% in 2002 to 49.5% in 2008, according to BP Migas.

Antara reported that a total of 14 business contracts on gas development worth \$6.76 billion were signed at the conclusion of the Indogas conference on Thursday.

The contracts, which were signed in the presence of Energy and Mineral Resources Minister Purnomo Yusgiantoro, consisted of seven on gas sale-purchase deals, four on LPG sale-purchase contracts, two contracts on the sale and purchase of gas from the Senoro field in South Sulawesi and one on the development of an LPG refinery.

Yusgiantoro said that the implementation of the gas projects was expected to help generate accelerated activity in the national economy and would employ at least 2,100 workers.

Japan's Inpex sees lower Indonesia LNG plant cost

Japan's Inpex Corp said on Thursday the cost of a proposed floating liquefied natural (LNG) plant in the Timor Sea would be around \$10 billion, half an earlier government estimate, due to lower infrastructure costs, Reuters reported.

The government has in principle agreed to the Inpex plan to build a floating LNG plant, which state upstream oil and gas regulating body BP Migas previously estimated would cost \$19.6 billion. The project is expected to be on stream in 2016.

"Now I recognize the oil price is going down, also the steel price is going down now...so maybe reflects the lower price, lower capital expenditure (capex)," Shunichiro Sugaya, Inpex senior general manager of the Masela project, told reporters. "We expect around (a) \$10 billion figure," he said.

Inpex estimates there is more than 10 trillion cubic feet (tcf) of natural gas reserves in its Abadi field in the Timor Sea, potentially one of Indonesia's top fields. If confirmed, it would make the project the second-biggest new gas field after the Tangguh project in Papua, which has combined reserves of 14.4 tcf.

MINING

Antam to cut 2009 ferronickel output by 30%

Indonesia's second-largest producer of ferronickel PT Aneka Tambang (Antam) will cut its output of the metal this year by 30% to 12,000 metric tons, as it doesn't expect flagging demand and lower prices of the commodity to improve, said a senior company official Friday, Dow Jones reported.

"Production (of ferronickel) is still ongoing at the moment, but we plan to shut down one ferronickel smelter in the middle of this year for three months," said Eko Endriawan, a spokesman for the company.

The smelter has been scheduled for maintenance works to improve its operation capacity to 90% from the current 80%, said Endriawan.

Last year, the company produced around 17,000 tons of ferronickel, he said.

The company will maintain its 2009 output of gold and bauxite at 1.1 million tons and 2.8 tons respectively.

United Tractors looking to acquire coal mines

Heavy equipment distributor United Tractors, continuing its diversification into coal mining, said it is looking for coal mines to acquire this year, Asia Pulse reported on Friday.

Earlier the company cancelled a plan to acquire two coal mines in Central Kalimantan as the coal quality and reserves were too small, finance director Gidion Hasan said.

Hasan said the company wants coal quality of more than 6,000 calories and reserve of around 10 million to 20 million tons.

He said the company's income this year is expected to decline compared with 2008 as demand for heavy equipment is declining.

The income of the company may fall by as much as 40% from around Rp21.8 trillion (\$1.98 billion) last year, he was quoted as saying by *Investor Daily*.

PT Timah starts construction of tin chemical plant

State-owned tin miner PT Timah through its subsidiary PT Timah Industry has started the construction of a tin chemical plant with a capacity of producing 10,000 tons a year and an investment of Rp250 billion in Cilegon, Banten, Asia Pulse reported.

The president director of PT Timah, Usman Wachid, said the plant was expected to start operating in 2010 and its capacity would be increased to 30,000 tons a year three years after initial operation.

He said the funds for the investment were taken from internal sources.

Wachid said the operation of the plant would not only give added value to the company but also a multiplier effect of promoting stabilization of tin prices in the international market.

Wachid said PT Timah had so far produced tin chemicals in a company in China under the BankStab trademark.

"Besides meeting domestic needs, the tin chemical produced in China is also exported," he said, adding that after having a tin chemical plant at home PT Timah will stop its cooperation with the Chinese company.

Tin chemical demand in the international market reaches 120,000 tons a year while the product is produced only by a few countries such as China, the US and in Europe. "The market is still wide open," he said.

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