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REPUBLIC OF INDONESIA

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POLITICS

Govt. raises fuel prices

The government raised fuel prices by an average 28.7% at midnight on Friday.

A few hundred students demonstrated against the rises. No injuries were reported but police said a total of 100 persons had been arrested for questioning at the National University, along with another 26 who had been detained at the State Palace for holding an unauthorized demonstration when the price rises came into effect.

There were fears that stocks of food would be snapped up before expected price rises as a result of the higher fuel prices. Rusman Heriawan, chairman of the Central Statistics Agency (BPS), said Friday that the government would work to safeguard supplies of basic food and goods, to ensure possible panic buying doesn't strip markets of staples, Dow Jones reported.

Also Friday, Trade Minister Mari Elka Pangestu told a news conference that basic food prices are likely to rise no more than 1.0% to 5.0% following the fuel price hike.

The government has outlined plans for direct cash transfers amounting to Rp14.1 trillion (\$1.5 billion) to millions of poor families to ease the financial pain.

Presidential spokesman Andi Mallarangeng said President Susilo Bambang Yudhoyono was ready to lose popularity over his plan to raise subsidized fuel prices to preserve the economy, Antara reported.

"The president realizes that raising fuel prices carries a political risk. He is risking his career and popularity in order to save the nation's economy. That's what's most important to him," Mallarangeng told University of Indonesia Student Committee representatives at the presidential Palace on Friday.

Noordin Top may have fled Indonesia: Documents

Southeast Asia's most wanted terror suspect, Noordin M Top, may have evaded a massive manhunt and fled Indonesia, according to police documents seen by The Associated Press.

The claim that Top has fled is contained in police investigation reports into two senior Indonesian members of the Jemaah Islamiyah (JI) militant network who fled the country on a mission to link up with terrorist groups in the Middle East. They were arrested en route in Malaysia and extradited to Indonesia in late March.

The two JI members, Abu Husna and Agus Purwantoro told investigators an Algerian contact in Jakarta helped them obtain airplane tickets, fake passports and gave them contacts in Syria, according to the investigation reports.

While discussing Abu Husna's planned journey, the Algerian is quoted as saying: "Do you know that Noordin Top has escaped?"

Husna says he did not and asks Jafar how he knew this. Jafar replies that it is a secret.

A senior anti-terror officer said Monday that police were still "crosschecking" the information with other sources.

Sidney Jones, a researcher for the International Crisis Group and a leading international authority on militants in Southeast Asia, said it was "plausible" that Top had managed to escape.

DPR to pass military tribunal bill

The House of Representatives (DPR) will soon pass an amended law on military tribunals that will allow civilians courts to try soldiers involved in non-military offenses, Xinhua reported.

Experts and human rights activists support the bill, which is hoped will curb impunity and ensure transparency within the Armed Forces (TNI).

President Susilo Bambang Yudhoyono, all factions in the House and the TNI earlier agreed to try servicemen facing criminal charges in civilian courts instead of military ones.

Chairman of the House's working committee on the law, Andreas Pareira, said the House will pass the amended bill into law in June or July.

NAM supports RI-sponsored declaration on virus sharing

The Indonesian-proposed declaration of Responsible Virus and Benefits Sharing received strong support from the 1st Non-Aligned Movement (NAM) Health Ministers' meeting on the sidelines of the 61st World Health Assembly (WHA) taking place in Geneva, May 19-24, 2008, said a report from Antara.

The proposal has become a NAM document that will be discussed further at a meeting of the permanent representatives of NAM member countries to the UN in Geneva on June 30, Acep Somantri, first secretary at the Indonesian Permanent Representative Office in Geneva, said in a press statement.

"The (NAM health ministers) meeting considers the declaration as a very important document to the developing countries as it was a source of moral strength for them in the fight for a new mechanism for virus and benefits sharing that was more transparent, equal and fairer for them (developing countries)," he said.

Indonesian Health Minister Siti Fadilah Supari told the meeting that the cooperation and support from NAM member countries during the negotiations for the new mechanism was an agreement and real cooperation of NAM in strengthening and improving the South-South health agreement, Somantri added.

REGIONS

Asian, African envoys meet with Papua officials

The Foreign Affairs Ministry hopes that the results of recent meetings in Papua between the envoys of eight Asian-African countries and local government officials will be followed up with concrete actions, a ministry official said.

According to a report from Antara, the ministry's director for diplomatic security, Sujatmiko, said on Thursday that he hopes there will be real follow-ups on the meetings as they discussed many things, including opportunities to cooperate in the fields of trade, mining and tourism.

The eight foreign ambassadors were G.M. Memela of South Africa, Nanda Mallawara of Sri Lanka, Salaheddin M. El Bishari of Libya, Gerardo Chirinza of Mozambique, Behrooz Kamalvandi of Iran, Hamzah Yahia of Algeria, Ibrahim A.Hajinez of Azerbaijan and Ali Baz Khan of Pakistan.

Follow-up actions were expected to provide a significant impetus to the regional economy in Papua and also spur the local people to participate more actively in efforts to increase their income, mainly through entrepreneurship.

The head of the Foreign Ministry's team that organized the visit to Papua, M. Asruchin, said the meetings were "preliminary" in nature in the sense that they were held to give the diplomats a better insight into Papua's economic potentials.

"The foreign ministry has facilitated their visit in Papua to give them a chance to communicate and exchange views directly (with local authorities) on how to develop the potentials for cooperation between Papua and the eight Asia and African nations," he added.

He said at the meetings, South African Ambassador G.M. Memela offered cooperation in the field of tourism, Iranian Ambassador Kamalvandi cooperation to set up a hydropower plant while the other envoys offered cooperation in the fields of mining and agriculture.

Quake paralyzes economy in N. Sumatra

A 6.1 magnitude earthquake which struck North Sumatra province last week has crippled land transportation and badly affected economic activities in North and South Tapanuli regencies, local officials said Friday.

"Local residents are complaining of huge losses because they have been unable to carry out business for the past four days because of the damaged roads," said provincial administration spokesman M.L. Tobing, *The Jakarta Post* reported.

Parts of the Central Trans-Sumatra Highway located in Sipirok, Central Tapanuli, and Siborong-borong, North Tapanuli, sustained heavy damage from the earthquake.

Officials from the two regencies said many sub-districts, including Simangumban, Purbatua, Pahae Jae and Pahae Julu, have been isolated for five days, and many houses and schools were destroyed, although no fatalities have been reported.

Tobing said the damage has prevented crucial supplies of fuel and basic commodities from reaching the affected areas.

ECONOMY

Inflation tipped to hit 12%

In the wake of the government's decision to raise fuel prices by an average 28.7%, inflation is expected to move to around 12% for the year, while the immediate concern was to ensure that stocks of staple foods weren't snapped up by shoppers fearful of price rises, creating shortages.

Indonesia's annual headline inflation is likely to stand at 9.40% to 9.50% in May, despite higher fuel prices in the last week of the month, Central Statistics Bureau (BPS) chief Rusman Heriawan told a news conference. June consumer prices could rise by around 12% on year, however, he said.

Bank Indonesia Senior Deputy Governor Miranda Goeltom said Friday she believed that close alignment of government and central bank policies could reduce the length of the inflation spike caused by the fuel price rises.

With former senior economics minister Boediono now in place at the head of the central bank, analysts said such alignment should be feasible given the close working relationship he enjoyed with Sri Mulyani Indrawati at the Finance Ministry.

Energy and Mineral Resources Minister Purnomo Yusgiantoro said Smart Cards would be distributed from September 1 until December 31 in Java and Bali to acclimatize people with a system under which

there will be three fuel price categories - a subsidized price for motorcycles and public transport vehicles, a partially subsidized price for private cars and a non-subsidized price for industrial consumers.

Fuel prices for private cars would fall into a pricing category which he called the "half-subsidized price," Yusgiantoro said, according to *The Jakarta Post*. "For private cars, even though they don't deserve to receive a subsidy anymore, we will raise the price gradually until it reaches the market price," Yusgiantoro said.

Ministry spokesman Sutisna Prawira said details of the system were still being decided and that preparations were still under way.

The lead-up to the introduction of higher fuel prices dominated business news during the week, with the Waisak holiday on Tuesday also slowing other activity.

The Investment Coordinating Board (BKPM) however said that realization of foreign and domestic direct investment projects grew 86% year-on-year to \$8 billion in the first quarter. Details were scarce, but BKPM head M. Lutfi said some of the growth appeared to be coming from relocations from China.

The Bakrie Group's infrastructure arm also said it was planning to invest \$5 billion, mainly in the power sector, over the next five years.

BUSINESS BRIEFS

MACROECONOMY

Inflation spike 'can be shortened'

Senior Deputy Governor of Bank Indonesia (BI) Miranda S. Goeltom said she strongly believed the expected high inflation rate due to the increase in fuel oil prices can last for a shorter period than after fuel prices were more than doubled in 2005, *Asia Pulse* reported Friday.

"We strongly believe that if all government policies are in tandem with BI's policies, the duration of the high inflation rate as the impact of the increase in fuel oil prices can be shortened," Goeltom said.

She said the high inflation rate as the impact of the increase in fuel oil prices in 2005 by more than 100% abated only after three to four months.

"That (the fuel oil price hike) would indeed bring about a high annual inflation rate, but we believe this time the duration of the high inflation rate can be shortened compared with that in 2005," she said.

"We should remember that monetary policies will not react to the current or past inflation rates but we react to the inflation expectation. We will make the necessary policies to minimize the possible impacts in the future," she said.

On the possibility of BI increasing interest rates, she said BI would take the necessary monetary policies, adding that the expected policies would depend on the latest information.

BI deputy governor Hartadi Sarwono said Thursday that inflation may top 12% this year, probably necessitating a rate rise, *Reuters* reported.

"An increase in a flexible manner must be done as we are dealing with inflation which could top 12% by the year-end, so there must be an adjustment," he said when asked about the BI rate.

At a news conference given by Finance Minister Sri Mulyani Indrawati on Wednesday, a ministry slide indicated inflation would spike to 11.96% in the first month after the price hike.

Govt. to seek higher receipts from mining, agribusiness

The government will seek an extra Rp20 trillion (\$2.12 billion) of tax receipts from the mining and agribusiness sectors to help fund the remaining fuel subsidies in its budget, Finance Minister Sri Mulyani Indrawati said Friday, Dow Jones reported.

A progressive export tax system for crude palm oil - the country's chief export - will probably yield an additional Rp10 trillion in taxes compared with previous years, Indrawati said.

She said the subsidy cuts, which raise pump prices an average 28.70%, will cap fuel subsidies at Rp135.1 trillion this year.

Global bond likely in June

The government will likely issue global bonds in June, Finance Minister Sri Mulyani Indrawati told reporters Wednesday, Dow Jones reported.

She didn't elaborate on the possible size of the proposed issuance, or what tenor the bonds might have. The government plans to issue the bonds to fund its budget deficit.

Indrawati said Indonesia is likely to run a deficit of Rp82.3 trillion this year.

Govt. may increase backup assets for sukuk

The government is considering increasing the amount of backup assets for its planned issuance of government Islamic bonds (sukuk), a ministry official said Monday, Reuters reported.

The value of the backup assets has already reached Rp18.8 trillion.

The Finance Ministry's Director General of State Wealth, Hadiyanto, said that the current amount was the result of using assets from 20 government offices as a guarantee, and using more assets was under consideration.

"This year, we can take into account the assets of 57 government offices, such as the Education Ministry, the Defense Ministry and the Religious Affairs Ministry. All of them have a large amount of assets," said Hadiyanto.

The government is set to issue its first Islamic bonds, or sukuk, to the domestic market in August and to the international market in October. The bonds will be based on assets, known as ijarah, which the ministry has valued at Rp18.8 trillion, as a guarantee for selling the bonds.

"The underlying assets will be a reference for the government in selling the sukuk," Hadiyanto said.

The government needs to secure Rp94.5 trillion to cover the 2008 budget deficit. It aims to obtain Rp104.7 trillion from debt financing this year, including bond sales.

INVESTMENT

Direct investment up 86% in first quarter

The Investment Coordinating Board (BKPM) said implementation of foreign and domestic direct investment projects grew 86% year-on-year to \$8 billion in the first quarter of this year, Asia Pulse reported.

The strong growth might have been caused by many foreign investors moving their operations from other countries in Asia, mainly from China to Indonesia, BKPM head Muhammad Lutfi said.

Lutfi said Singapore led other foreign countries in term of investment value in the country in the first three months of this year.

The telecommunications sector had attracted the largest part of foreign investment, he added.

Bakrie eyes \$5B in infrastructure projects

PT Bakrie Indo Infrastructure said it hopes to win more infrastructure projects, mainly power generating projects, worth \$5 billion until 2013, Asia Pulse reported Friday.

The target does not include three projects worth \$2.9 billion the company has already won and is building, its president Bobby Gafur Umar said.

Umar said the subsidiary of PT Bakrie & Brother targets at least four power generating projects in addition to toll road and gas pipeline projects.

He said the company will seek bank loans or team up with strategic partners to finance the projects.

The company is building or is preparing to build a gas pipeline project valued at \$1.2 billion, power generating plants valued at \$1.4 billion and a toll road project valued at \$300 million.

IFID offers \$3B to back up Indonesian projects

The International Fund for Indonesia Development (IFID) has offered to provide \$3 billion as a guarantee for government and private projects in Indonesia this year, Asia Pulse reported.

IFID, which groups Indonesians based abroad and foreigners born in Indonesia or concerned with Indonesia, said it has \$10 billion available to back up projects in the country.

In the first phase IFID will be ready to make \$3 billion available in the form of a bank guarantee this year, IFID chairman Safari ANS said.

The cost is only 6% for three years and could be rolled over, he said, adding that a number of Indonesian business leaders are negotiating with IFID and it hopes to meet the president to convey the offer.

PowerTel to invest \$88.5M for Java fiber optic network

PT Power Telkom said it will set aside Rp800 billion to build fiber optic networks in three rings in Java, Asia Pulse reported.

Company president Dicky Tjokrosaputro said the infrastructure will provide larger bandwidth to improve Internet network quality in the country.

The company focuses on development of infrastructure to provide networks for telecommunications operators.

Currently the company is ready only to offer services to customers in Jakarta, he said, adding the plan is to build the infrastructure in Bandung in June and in Surabaya in September.

PowerTel is the first Indonesian company operating specially in the construction of backbone infrastructure.

Kalimantan container terminal to start construction in June

The city government of Samarinda in East Kalimantan will start construction of a container terminal in June with an investment of Rp550 billion, Asia Pulse reported.

"Construction of the Palaran terminal is expected to be completed in 19 months," said Helman Sembiring, president of PT Pelabuhan Samudera Palaran (PSP) which will finance the project.

PT Samudera Indonesia, which owns 75% of PSP, will have a 47% share of the profit from the operation of the terminal with the rest going to state-owned port operator PT Pelindo IV and the city administration.

PSP has been awarded the project on its long experience in building a number of major ports in the country.

STATE CONCERNS

Govt. considering mandatory use of biofuel

The government is considering bringing in a mandatory policy for the use of palm-based biodiesel in the domestic market this year, government officials said on Wednesday, Reuters reported.

Indonesia is pushing for the use of biofuels from palm oil to cut the use of costly petroleum products and ensure the fledgling biodiesel industry survives rising prices of the commodity.

"The government is studying a mandatory policy for palm biodiesel mix, for example starting with a 3% mix," Franky Widjaja, chairman of the Indonesian Palm Oil Board, told reporters on the sidelines of a palm oil industry conference.

State oil firm Pertamina has been selling biodiesel since 2006 but rising palm oil prices and the lack of a mandatory policy, as well as incentives, has prompted the firm to cut the blend in its diesel fuel from an initial 5% to 2.5% and then 1%.

Evita Legowo, secretary at the National Biofuel Development Team, confirmed the plan and told Reuters the policy could be introduced this year.

"We haven't decided how much the biodiesel blend will be. Without a mandatory policy, producers are worried that their products are not being used," Legowo said.

The combined capacity for biofuel using palm oil as a feed stock in Indonesia is 1.7 million tons per year and the country exported an estimated 300,000 tons in 2007, according to data from the Indonesian Biofuel Producers' Association.

Govt. issues regulation on free trade zone council

After much delay and indecision, the President issued a regulation calling for the establishment of a national council to oversee free trade zones (FTZs), *The Jakarta Post* reported on May 17.

Under the regulation signed on May 7, the coordinating minister for the economy will hold a position as chairman. Council members will include related cabinet ministers, the National Police chief and the Investment Coordinating Board chairman.

Boediono said the regulation was accompanied by three presidential decrees appointing zone councils for the Batam, Bintan and Karimun islands FTZs.

Although the islands were designated FTZs in June 2007, they have yet to abolish tariffs on export and import duties.

Following the issuance of the regulation, Riau Governor Ismeth Abdullah said he was looking to draw \$5 billion in investment over the next five years.

Last year, Riau attracted about \$1 billion in investment, more than double the \$484 million it received in 2006.

Abdullah said most investors in the islands were involved in the electronics, pharmaceutical, shipbuilding and chemical industries.

Govt. cuts import duties on CKD cars

The government has decided to cut the import duty on cars in completely knocked down (CKD) form from the range of 5-40% to 5-15%, an official of the industry ministry said, Asia Pulse reported Wednesday.

The decision of the finance minister on May 8 is a step in the implementation of a program of harmonization of import tariffs in the automotive sector to be completed until 2010.

In 2010, the import duties are expected to be in the range of 5% to 10%, Syarif Hidayat, director of transport equipment industry said.

Hidayat said the new regulation is expected to boost development of the country's automotive industry.

ASEAN investors may own 51% of airlines

Foreign investors from other ASEAN countries are allowed to own up to 51% of Indonesian airlines under a government-to-government agreement, an official said, Asia Pulse reported Friday.

"The agreement is reciprocal, therefore, if any country is against giving majority stake to Indonesian investors we will do the same to that country," Transport Minister Jusman Sayfii Djamal said.

The agreement has been implemented between Indonesia and Singapore, Jusman said.

He said Indonesia will have a new law on aviation, which will be more liberal, allowing greater opportunities for the private sector in the aviation business.

The aviation bill adopts international safety standard as requested by the European Union and the International Civil Aviation Organization.

SOEs

Telkom sees 2008 consolidated capex at \$2.5B

Indonesia's largest telecom company, PT Telkom, is planning to allocate \$2.5 billion for consolidated capital expenditure this year, up from \$2 billion last year, a company official said, Thomson Financial reported Friday.

Telkom subsidiary PT Telekomunikasi Selular (Telkomsel) is expected to allocate between \$1.5 billion and \$1.7 billion for its infrastructure network expansion, finance director Sudiro Asno told a media briefing. He said Telkom itself will allocate \$800 million for capital expenditure this year.

About 30% to 40% of the capex requirement will be financed by bond sales or bank loans, and the remainder will come from internal cash.

Telkom expects its revenue to grow 11% to 12% this year, mainly supported by strong revenue growth from its cellular business unit, said Asno.

In 2007, Telkom's sales reached Rp59.44 trillion, up 15.9% on the Rp51.29 trillion posted a year before. Full-year net profit rose 16.8% to Rp12.86 trillion.

In the first quarter of this year, net profit grew 5.4% to Rp3.2 trillion, while sales rose 8.5% to 15 trillion.

PT Telkomsel -- 65%-owned by Telkom -- recorded a 32% on-year rise in subscriber numbers to 51.34 million from 38.90 million in the quarter, said Telkom in a statement. Telkomsel is Indonesia's largest cellular operator by subscribers.

Revenue from the cellular services contributed almost 40% to Telkom's total revenue, rising from 38% a year earlier, Telkom said.

Telkom president Rinaldi Firmansyah said the company will seek shareholders' approval at a meeting on June 20 to buy back its shares from the investing public.

"I can't say how many percent of shares we're planning to buy back, but we will allocate between Rp2 trillion and 3 trillion for the plan," Firmansyah said.

UK's Delamor keen to purchase Semen Kupang

British based financing company Delamore Owl & Group said it is ready to provide \$28 million in credit to revitalize debt-ridden cement maker PT Semen Kupang, Asia Pulse reported.

Delamore wants to acquire a 61% stake from the government in the plant at Kupang, East Nusa Tenggara, chairman of Delamore Indonesia Victorino Dosantos said.

Dosantos told the newspaper *Investor Daily* that Delamore had already signed an agreement on the credit with Semen Kupang.

PRIVATE SECTOR

Astra Agro sees palm output above 1M tons

Largest listed plantation firm in the country PT Astra Agro Lestari expects to produce more than 1 million tons of crude palm oil by 2010 after building more mills, the company said on Thursday, Reuters reported.

Astra Agro, controlled by PT Astra International, accounted for about 5% of total crude palm oil production estimated at between 17-17.2 million tons last year.

The company will start constructing two crude palm oil mills in east Kalimantan next year, said Bambang Palgoenadi, Astra Agro's research and development director.

The official did not say how much the company planned to invest in the two mills.

The company now has 20 mills with total capacity to process 910 tons of oil palm fruits per hour.

In the first quarter of this year, the company's net profit climbed to Rp827.05 billion (\$89.65 million), compared with Rp268.85 billion a year ago, while revenue more than doubled to Rp2.27 trillion.

Analysts expect Astra Agro, which has a market capitalization of around \$4.07 billion, to book a net profit of Rp3.08 trillion this year, up from Rp1.97 trillion last year.

Meanwhile, Bloomberg reported that Astra Agro said it won approval from shareholders to accept \$60 million from PT Adaro Indonesia in a land deal to end a 17-year dispute.

Astra Agro has been in talks with coal miner Adaro since 1991 over 7,163 hectares (17,700 acres) of land its units own in Tabalong regency in South Kalimantan that overlap with Adaro's mining rights.

BANKS

Holding company planned for state banks

Indonesia will set up a holding company for its state banks to help boost performance and comply with the central bank's ownership rules, the official news agency Antara reported, citing state enterprise minister Sofyan Djalil.

The state enterprise ministry will submit the plan to Bank Indonesia by the end of June, the report said.

Indonesia has four state banks including publicly traded PT Bank Mandiri, the country's biggest lender by assets, PT Bank Negara Indonesia, PT Bank Rakyat Indonesia and PT Bank Tabungan Negara.

The central bank is encouraging mergers to strengthen a banking industry that needed a \$51 billion government bailout during the 1997 Asian financial crisis.

Boediono takes office as new BI governor

Former Coordinating Minister for Economic Affairs Boediono was inaugurated as Bank Indonesia (BI) governor on Thursday at a ceremony at the Supreme Court. He will serve as governor of BI until 2013, *Kompas* reported.

Boediono replaced former BI governor Burhanuddin Abdullah.

Boediono was President Susilo Bambang Yudhoyono's third choice for the post after the House of Representatives declined two previous nominees, Bank Mandiri president director Agus Martowardjojo and deputy head of the State Asset Management Company, Raden Pardede.

Boediono told reporters after the ceremony that he will implement any monetary policy necessary to maintain national economic stability in accordance with existing laws.

"BI primarily aims to maintain stability with reference to the government's main fiscal policy," he said, adding that BI will support the government's decision to increase fuel prices.

Bank Muamalat to launch rights issue next year

Publicly listed shariah bank PT Bank Muamalat said it plans to launch a rights issue next year to raise Rp400 billion (\$44.4 million), *Asia Pulse* reported Friday.

The country's first Islamic bank wants to strengthen its sharia financing capacity, its business director Saefuddin Noer said.

"We hope investors will be attracted to buy the shares by our 23% return on equity and good prospects," Noer said.

The bank has named four underwriters -- PT Buana Securities, PT Danareksa Sekuritas, PT Andalan Artha Advisindo Sekuritas and PT CIMB-GK Securities.

Lippo-Niaga merger 'going well'

The merger of two banks, PT Bank Niaga and PT Bank Lippo is going well, Malaysian state investment arm Khazanah Nasional managing director Azman Mokhtar said on Tuesday, *Reuters* reported.

Khazanah indirectly owns a 93% stake in Lippo and has an indirect 64% share in Niaga through Bumiputra-Commerce.

The merger of the two banks would be in line with the central bank plans to consolidate the country's 130 banks, which have total assets of around \$200 billion, through mergers and acquisitions.

POWER

Govt. sets reference for geothermal power price

The government issued a ministerial decision on official price references for geothermal power, an official of the energy and mineral resources ministry said, Asia Pulse reported Wednesday.

Director for the management of geothermal power Sugiharto Harsoprayitno said the price references will be used by investors to set the price of geothermal power they generate for state-owned electricity company PLN.

Under the regulation, the price of power generated from a geothermal power plant with a capacity of more than 55 MW will be 80% of the electricity production cost in the region where the plant is located.

The prices are 85% of the production cost for power generated by a geothermal power plant with a capacity of from 10 to 55 MW, and between 60% and 80% for power produced by ones with a capacity of less than 10 MW.

Previously PLN set the price of geothermal power at about \$0.05 per Kwh as against \$0.07 proposed by investors, *The Jakarta Post* said.

Under the new regulation, the price could be as high as \$0.09 per kWh in Java where production cost is around \$0.119 per kWh, the paper said.

Bank Niaga seeking partners to finance power plant

Bank Niaga said it is looking for two other local banks to jointly provide a \$30 million credit for power plant project of PT Medco Internasional Energy, Asia Pulse reported Wednesday.

The fund will be used to expand the capacity of a combined cycle power plant (PLTGU) of Medco in Batam, Bank Niaga director Catherine Hadiman said.

Bank Niaga had already provided a credit of \$12 million for the construction of the power plant earlier, Hadiman said.

Medco spokesman Nusky Suyono said his company also will put up funds in addition to the bank credit to build the expansion project.

Indonesia Power invests \$100M in hydropower plant

PT Indonesia Power has invested \$100 million to optimize the operation of three hydropower plants (PLTA) managed by Perum Jasa Tirta II in Purwakarta, West Java, a spokesman said, Antara reported Friday.

"The cost of the program at the three PLTAs is estimated at \$100 million," president director of PT Indonesia Power Tonny Agus Mulyantono said.

The project was expected to increase the power plants' combined capacity to 700 GWh from 500 GWh at present.

Originally, the power plants were designed to have a 900-GWh production capacity but the capacity had declined due to its old equipment.

Currently, Indonesia Power had a capacity to produce 9,000 MW of electricity. In 2009-2010, the company would have four new plants with an additional production capacity of 3,200 MW.

OIL & GAS

Tohoku Electric to buy Tangguh LNG starting 2010

Tohoku Electric Power Co., Japan's fourth-largest power utility, agreed to buy liquefied natural gas from the BP Plc-led Tangguh project, boosting purchases from the world's second-biggest LNG exporter, Bloomberg reported.

Tohoku signed an agreement to buy 120,000 metric tons a year starting in 2010 under the 15-year contract, it said in a statement on its web site.

The utility, based in northern Japan, has another agreement to buy 830,000 tons from Arun plant in Aceh province under a contract that expires next year.

But US-based Sempra Energy (SRE) says it has locked in a 20-year contract with BP PLC (BP) to supply its Costa Azul terminal in northern Mexico with liquefied natural gas from Tangguh, a company spokesman said Thursday, Dow Jones reported. It was earlier expected that Sempra would shelve the contract due to higher pricing.

The LNG - from the Tangguh project - will begin supplying Costa Azul in the second quarter of 2009, according to the spokesman.

The country's third LNG project has been stalled for three years until 2009 because of delays in getting approvals, according to the BP web site and a presentation in February.

BP owns 37.16% of the \$5 billion Tangguh project, making it the biggest single investor, while Hong Kong-based Cnooc Ltd, which has agreed to buy 2.6 million tons of LNG from the site, is the second largest with a 13.9% stake.

Japanese companies, including Nippon Oil Corp. and trading house Mitsubishi Corp., own 45.8%, and Talisman Energy Inc. owns 3.06%.

Inpex sees higher Timor Sea gas reserves

Japan's INPEX Holdings Inc estimates there are more than 10 trillion cubic feet of natural gas reserves in its Abadi field in the Timor Sea, potentially one of Indonesia's biggest fields, an energy official said on Thursday, Reuters reported.

The chairman of energy watchdog BP Migas, Priyono, said he had met officials from INPEX last week, but the Japanese energy explorer had not yet submitted plans to develop the Abadi field.

"INPEX told me that the gas reserves are more than 10 tcf (trillion cubic feet). We want some of the gas to go to the domestic market and some can be exported in the form of LNG," he said.

If confirmed, it would make the project the second-biggest new gas field after the BP Plc-led Tangguh project in Papua, which has combined reserves of 14.4 tcf.

The Japanese firm is currently the sole operator of the Abadi gas field in the Masela block in eastern Indonesia.

INPEX officials in Indonesia could not immediately be contacted.

Medco invests 'at least' \$1B to diversify

The Medco Group said it will invest at least \$1 billion to diversify its business into coal mining, plantations and the pulp and paper industry.

The group, whose core business is in the oil and gas industry but which is also branching out into power generation, has established new companies -- PT Medco Mining to operate in coal mining, PT Medco Agro in the plantation sector and PT Medco Papua in pulp and paper.

The three companies will start with an initial capital of \$50 million each, Medco Group president Hilmi Panigoro said.

Medco Mining will start by acquiring coal and iron ore mining concessions in Sumatra and Kalimantan, Panigoro said.

Meanwhile, *Bisnis Indonesia* reported that PT Medco Energi Internasional will develop seven major development projects within the next three years.

The seven include LNG projects at Senoro-Toili, Central Sulawesi; the Blok A site in Aceh and at Lematang, South Sumatra, and an oil and gas development at Blok 47 Libya.

It is also working on an enhanced oil recovery project in Rimau, South Sumatra, the Sarulla geothermal project development in North Sumatra and an ethanol refinery in Lampung.

Govt. awards 5 oil, gas blocks

The government said Friday it has awarded five gas and oil blocks to five companies, Dow Jones reported.

The five are Lundin Oil, Murphy Overseas Venture Inc., Eni Indonesia, Genting Oil and Gas, and a consortium of CNOOC Ltd., Southeast Asia Ltd., Petronas Carigali Overseas.

"The value of the investment in the five blocks will be totaling \$201.45 million," said Luluk Sumiarso, the director general of oil and gas at the mines and energy ministry.

Sumiarso said that under a profit sharing formula, the five companies will get between 20% to 35% of the profit from operating the gas and oil blocks.

The government receives \$24.4 million in signatory fees from the five companies, he said.

Kuwaiti cos offer to finance coal gasification project

Two Kuwaiti companies have offered to finance a \$1.5 billion coal gasification project of state-owned fertilizer company PT Pupuk Kaltim, an official said, Asia Pulse reported Wednesday.

State Minister for State Enterprises Sofyan Abdul Djalil said Kuwait Investment Agency and Kuwait Investment House have agreed to build the project in East Kalimantan to produce gas feedstock for the fertilizer plant.

Sofyan said the two companies also agree to finance a number of other projects in strategic sectors including in the manufacturing, energy, mining and property sectors.

He said coal gasification is one of rational choices to cope with scarcity in the supply of feedstock for fertilizer industry and to become an alternative source of energy.

He hopes that PT Pupuk Kaltim could carry out its project and complete it in 5 to 10 years.

PGN targets 50% increase in 2008 gas sales

State gas distributor PT PGN has set itself the target of increasing the volume of its gas sales in 2008 by 50% from 422 mmscfd (million cubic feet) in 2007, a spokesman said, Asia Pulse reported Thursday.

"We want our sales volume to increase 50%, especially after the South Sumatra-West Java (SSWJ) gas pipeline project has become operational," PGN President Director Sutikno said.

The increased sales were expected to prop up the company's income by 50% from Rp8.8 trillion (\$950.4 million) in 2007.

However, the income would be affected by possible loss due to the rupiah's depreciation as PGN was selling its gas in US dollars.

Sutikno said the SSWJ project was expected to contribute 600 mmscfd to the company's gas supply capacity and some 900 mmscfd would come from other sources.

"We continue to manage our gas supply by reducing our allotment for the export market and increase supply for the domestic market. Gas supply is sufficient, including for local fertilizer industries," he said.

Sutikno said, the company would not raise its gas price although the government was planning to raise fuel oil prices. "We are waiting for the pricing formula," he said.

The government was evaluating a new gas pricing formula as a reference for PGN's gas selling price.

MINING

United Tractors unit wins \$1.1B mining contract

Heavy equipment distributor company PT United Tractors said on Monday its mining contractor unit, PT Pamapersada Nusantara (Pama), has won a mining service contract worth \$1.1 billion from coal producer PT Jembaran Muarabara, *Bisnis Indonesia* daily reported.

"It is true that Pama has won a contract from Jembaran. The contract will last for five years," company president Djoko Pranoto was quoted as saying.

The mining contractor unit is one of the group's largest revenue contributors. Last year, the unit contributed 43% of total sales, or Rp18.17 trillion.

Among the clients of Pamapersada are coal producer PT Adaro Indonesia, PT Indominco Mandiri and PT Kaltim Prima Coal, a unit of giant coal miner PT Bumi Resources.

United Tractors is a subsidiary of PT Astra International.

Bumi confirms \$132/ton coal deals

Indonesia's largest coal miner, PT Bumi Resources, confirmed that it has signed 2008 coal deals with some Japanese utilities at \$132 a ton, Reuters reported Friday.

Dileep Srivastava said by email that the agreed price was 140% above 2007 prices.

Traders said that the company has negotiated a 120% price hike for 2008 thermal coal deliveries to some Japanese utilities.

Two industry sources also said the firm had agreed to sell 5 million tons of thermal coal at \$132 a ton to some Japanese utilities, while other Japanese utilities have signed index-linked supply contracts with Bumi at \$6 above the globalCOAL benchmark index.

Bukit Asam wins bonus in Suralaya coal deal

State coal miner PT Bukit Asam has signed coal deals to supply Suralaya power plant in West Java at Rp544,750 (\$58.53) per metric ton for June-December 2008, the company said on Friday, Reuters reported.

The price is up nearly 13% from Rp484,000 per ton (\$52.01) agreed for January to May this year on rising global prices.

Bukit Asam has agreed to supply Suralaya, one of Indonesia's biggest power plants, with 5.1 million tons of coal this year, similar to 2007.

"The change in prices was due to higher international spot prices for coal, reaching \$125-\$130 a ton," said Nurtimah Tobing, Bukit Asam's investor relations officer.

Rohit Ferro-Tech in coal mines pact

The Singapore unit of Rohit Ferro-Tech Ltd has entered into a pact with Indonesia's PSP Group to acquire a 60% stake in two coal mines in Indonesia, the company said on Wednesday (21/5/08), Reuters reported.

The firm's subsidiary, SKP Overseas Pte Ltd, entered into a pact with PT Pacific Samudra Perkasa.

Rohit will use from these mines for making ferro alloys and for its proposed captive 110-MW power plant expected to be commissioned by June 2009. Part of the coal from these mines will also be used for external sales, the company said in a statement.

The company currently uses over 125,000 tons annually of coking coal and will require about 300,000-400,000 tons of thermal coal for power plant.

The production from the first mine, which has reserves of 20 million metric tons, will begin from July while the second mine production with reserves of 5 million metric tons, will begin in July 2009, the company said.

It didn't disclose the value of the deal.

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