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REPUBLIC OF INDONESIA

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**Trade and Investment News<sup>1</sup>, 30 December 2008**

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## **NATIONAL**

### **Four years marked since Indian Ocean tsunami**

Indonesia last week marked four years since the deadly Indian Ocean tsunami with prayers and remembrance of one of the world's worst ever natural disasters, reported Agence France-Presse.

Indonesia was hardest hit by the tsunami, with at least 168,000 people killed when walls of water smashed into Aceh and Nias.

Thousands of Acehnese gathered among the shattered remains of a military base in the coastal town of Meulaboh, one of the areas worst hit by the earthquake-triggered tsunami, for a somber Islamic prayer ceremony.

"The four-year anniversary of the tsunami holds deep meaning, because right here we witnessed the first place the waters of the tsunami came into Aceh," local government head Ramli Mansur said.

"We are here to remember the martyrs who were killed in the tsunami and to give us momentum to rebuild a better Aceh," he said.

Prayers were held in mosques throughout Aceh, including tearful ceremonies at mass graves in the tsunami-devastated capital of Banda Aceh.

Indonesia also marked the anniversary with tsunami drills in North Sulawesi, including one in Manado attended by President Susilo Bambang Yudhoyono, Antara reported.

In nearby Gorontalo, a crowd of around 5,000 fled to higher ground in a simulated offshore-earthquake drill.

The 2004 disaster, which killed more than 220,000 people in total, including in Sri Lanka, Thailand and India, led to an outpouring of international aid.

Some \$7.2 billion was pledged to Aceh and Nias in the months after the tsunami, according to the official reconstruction agency,

The agency says reconstruction in affected areas is nearly complete, with \$6.7 billion in aid money spent and nearly 125,000 homes built as well as schools, roads and bridges.

### **Central Java tops governance list**

The Central Java provincial administration has succeeded in improving its performance in terms of good and clean governance, becoming the best among 25 provinces assessed by the State Ministry for Administrative Reforms, *The Jakarta Post* reported.

According to the results released by the ministry on Wednesday, Central Java topped the list, scoring 40.46 points out of a possible 100.

The appraisal was conducted between September and November, by reviewing each province's annual performance reports submitted to the ministry in August.

Only 25 of the 33 provinces nationwide had submitted reports. The remaining eight -- Jambi, Bangka Belitung, Yogyakarta, Southeast Sulawesi, West Sulawesi, North Maluku, Papua and West Papua -- missed the deadline.

State Minister for Administrative Reforms Taufiq Effendi said the evaluation is aimed at encouraging provincial administrations to improve performance in executing state programs by showing concrete results as part of national bureaucratic reforms.

Among the main criteria evaluated for each province was increase of investment and revenue, reduction of poverty and unemployment and improvement of public services.

To accelerate bureaucratic reforms, Effendi said, the government will issue nine new laws, including the Public Service Law, Administrative Government Law, State Administrator Ethics Law and State Minister Law.

The 10 best provinces were: 1. Central Java; 2. West Sumatra; 3. North Sulawesi; 4. East Kalimantan; 5. South Kalimantan; 6. West Kalimantan; 7. South Sulawesi; 8. Riau Islands; 9. West Java; 10. Jakarta.

## Indonesia condemns Gaza attacks

Indonesia condemns the Israeli missile attacks on the Gaza Strip, accusing Israel of abusing the Annapolis agreement signed by the two disputing countries in November last year and warning that the air strikes will only trigger "new tensions" in the area.

"The Indonesian government is deeply upset by the deaths of hundreds Palestinians in the Gaza Strip caused by the Israeli missile attacks, Foreign Affairs Ministry spokesman Teuku Faizasyah said in an official statement made available to *The Jakarta Post* on Saturday.

"The Indonesian government condemns the attack and calls for Israel to end the use of violence in the Gaza Strip because this will prompt new tensions, while, on the other side, the attack is an abuse of the Annapolis agreement," the statement said.

Indonesia is also planning to send medical aid to Palestinian victims of Israeli air strikes in the Gaza Strip, an official said Monday.

The massive air offensive launched on Saturday in response to a wave of Palestinian-fired rockets has killed over 300 people and wounded more than 600.

"The Indonesian government will send medical aid and cash of more than Rp2 billion (\$184,000)," said the head of the health ministry crisis center, Rustam Pakaya.

## POLITICS

### Judicial review annuls election law articles

The Constitutional Court ruled last week that parliamentary seats will go to the candidates who secure the most votes in an election, *The Jakarta Post* reported.

The court unanimously agreed to revoke two articles in the 2008 election law concerning the way legislative seats are distributed.

The annulled articles would have allowed political parties to handpick cadres of their choosing to represent the party at the national and regional legislatures, rather than appoint candidates who won the most votes.

"The philosophical basis of every election is that it be determined by the number of votes won. Therefore, the election of legislative candidates must follow that rule, rather than the numerical order decided in advance," said the panel of judges, presided over by court chief Mahfud MD.

Factions at the House of Representatives endorsed the election bill in March.

President Susilo Bambang Yudhoyono said on Saturday he would annul the two articles in line with the court's ruling, reported Reuters.

Under the law, legislative seats are distributed first to candidates who secure at least 30% of the original vote. The rest of the seats are then allocated according to a list of permanent legislative candidates submitted by each political party.

Four legislative candidates from the Indonesian Democratic Party for Struggle (PDI-P) filed the judicial review of the law on the grounds the system was unfair.

The court said the law breached the principles of representative democracy and failed to respect voters' choices.

"Given that Indonesia adopts a system of direct elections for the president and vice president, it will be fair if members of the House of Representatives and Regional Representatives Council are those who are directly elected by the people," the court said.

## **TERRORISM**

### **Military may take lead in terrorism fight**

The government is considering whether to authorize the Armed Forces (TNI) to take command from the National Police in the nation's fight against terrorism, *The Jakarta Post* reported.

Several approaches are being considered for building cooperation between the TNI and the National Police in dealing with terrorism, TNI commander Gen. Djoko Santoso said last week.

Santoso said the first option was for the police to maintain its position as sole commander for counter-terrorism and the second is for the TNI to assist police in this mission, he said.

TNI could also take the lead in counter-terrorism efforts with police assistance, because some situations, such as hostage takings, are outside police capabilities.

The last option is for the TNI alone to handle counter-terrorism, as it does for VIP security for the president and vice president, Santoso added.

Chief security minister Widodo Adi Sutjipto said the government would soon draw up standard operating procedures for the TNI and the National Police in their joint fight against terrorism.

## **SECURITY**

### **Christmas celebrated peacefully nationwide**

Christmas was celebrated peacefully across Indonesia amid tight security, Xinhua reported.

Christmas celebrations from Wednesday evening through Thursday morning ran smoothly and peacefully without any security disturbances, police officials said.

Thousands of Christians attended Christmas Mass at churches in Jakarta on Thursday. The Jakarta Roman Catholic Cathedral, which is Indonesia's oldest and biggest church, can accommodate around 2,500 people and saw no security disturbances.

Christmas celebrations in some churches in East Java, the largest Muslim region in the country, also took place without any reported incidents.

East Java police deployed at least 4,000 police personnel to maintain security around churches, malls and other resorts.

During the Christmas celebration in Manado, President Susilo Bambang Yudhoyono said the diversity of Indonesia should not restrict the people to unite as one nation.

"Diversity should not create discrimination and egoism. There should be no racial groups who think they are superior above others," the president said.

## **Armed Forces receives delivery of Russian fighter jets**

Russia has delivered two Sukhoi fighter jets to Indonesia, the first planes to be supplied to the country out of a total order of six, Russian defense officials said on Friday, Agence France-Presse reported.

"The first two jets out of the six bought by Indonesia have been delivered to the customer," the Russian Interfax news agency quoted a Sukhoi spokesman as saying.

The two jets delivered were of the Su-30MK2 class and another Su-30MK2 jet is due to be delivered at the start of next year. Three Su-27SKM fighter jets are due to be delivered by 2010, Interfax said.

The delivery of the jets was part of a wide-ranging defense deal agreed when then President Vladimir Putin visited Jakarta in September 2007.

Moscow also extended to Indonesia a \$1 billion-dollar credit scheme to finance this and other military purchases from Russia, including 22 helicopters, 20 amphibious tanks and two submarines.

## **LAW AND ORDER**

### **KPK to probe undeclared govt. bank accounts**

The Corruption Eradication Commission (KPK) has formed a special team to investigate ministries and government agencies suspected of having undeclared accounts and plans to start examining them early next month, the KPK chairman said, *The Jakarta Globe* reported.

The Ministry of Finance last week reported to the KPK that 260 undeclared accounts are owned by ministries and government agencies. The combined value of the deposits in the accounts is estimated to be more than \$30 million.

The ministry said that its investigation into the accounts showed indications of corruption.

"We have formed a special team with one of our commissioners as head," KPK chairman Antasari Azhar said, adding the team would start working early next month.

"There are so many accounts, but we will start on those that have been frozen by the Finance Ministry," Azhar said.

According to the Finance Ministry, the Supreme Court has the largest number of undeclared accounts with 102. The Ministry of Justice and Human Rights has 66 accounts. The upstream oil and gas regulator BP Migas and the Ministry of Manpower and Transmigration have 21 accounts each.

The Supreme Court and several ministries have argued that the accounts were official and had been used for various administrative purposes.

The KPK's deputy chairman for corruption prevention, Haryono Umar, said the commission would only investigate accounts suspected to have been used for corruption.

"If we find evidence that the ministries or agencies were involved in other criminal activities, we will hand over jurisdiction to the police and the prosecutor's office," he said.

After examining the basis for establishing the accounts, as well as their cash flows, the ministry's team concluded that 260 accounts showed indications of corruption. Information about 387 other accounts was forwarded to the Finance and Development Supervisory Board for re-examination.

### **No negotiations with Somali pirates for Indonesian hostages: Govt.**

The government will not negotiate with the Somali pirates for 11 Indonesians taken hostage earlier this month while working on a Malaysian tug boat, the Foreign Ministry said, Xinhua reported.

The 11-member crew was taken hostage by Somali pirates while sailing in Yemeni waters on December 16 and later brought to Somali waters, ministry spokesman Teuku Faizahsyah said.

"The government is now coordinating with the owner of the Malaysian ship, Mas Indra Shipping Malaysian Bhd, based at Port Klang, Malaysia, to rescue the crew," Faizahsyah added.

"We feel that negotiating will only encourage more pirate attacks in the future," he added.

The government has set up a crisis center to deal with the hostage situation and has so far identified all 11 members of the crew as alive and well, *Tempo* reported.

## **ECONOMY**

### **Conditions set for govt. incentives**

The government has established three conditions for industries that want to gain incentives to ride out the impact of the global economic crisis, said Eddy Putra Irawadi, deputy for trade and industry coordination at the Coordinating Ministry for Economic Affairs.

"We are asking for all industry sectors to provide data on their capacity to absorb workers, commitment to payment of additional income tax and achievement of exports," he said, *Kompas* reported on Saturday.

Industries which were not able to supply such data would not be eligible for incentives, which include reductions of as much as Rp12.5 trillion (\$1.15 billion) in tax, Irawadi said after a meeting with the coordinating minister, Sri Mulyani Indrawati.

Much of the data which had been supplied by industry associations was still in raw form and was not convincing, he said, with the exception of the tire industry, which has assured the government that 70% of its production would be exported.

If data was acceptable, the government would provide three types of assistance: tax breaks, domestic market protection by means of limits on imports of competing products, and trade financing.

## **BUSINESS BRIEFS**

### **MACROECONOMY**

#### **Govt. to spend \$9.2B on infrastructure in 2009**

The government plans to spend Rp100 trillion (\$9.2 billion) on infrastructure projects next year in a bid to sustain growth amid a global economic slowdown, a senior official said last week, Reuters reported.

"To speed up infrastructure development in 2009, we have started the tenders. Early in 2009 we hope that there will already be construction going on," said Bambang Susantono, deputy to the coordinating minister for economics in charge of infrastructure.

"The total is around Rp100 trillion. Some Rp70 trillion will be channeled through ministries and institutions, while Rp30 trillion will be transferred to the provinces," he said.

The projects would help to create jobs at a time when the manufacturing and textile sectors are cutting back because of the slowdown.

Purbaya Yudhi Sadewa, an economist at Danareksa Research Institute, said economic growth in 2009 could receive a "quite significant" boost if unspent funds from the 2008 budget were carried over and used for infrastructure projects.

The government will also borrow \$1.57 billion from Japan to pay for a commuter train project in Jakarta in order to reduce congestion, assistant deputy in charge of transportation Mesra Eza said on Wednesday.

"The construction phase will start in 2010 and (the train service) is scheduled to begin operating in 2014," said Eza, adding that the two governments are due to sign the loan agreement in February.

The underground and over ground commuter train network with an estimated 14.3 km of track will run from the central business district to the south of Jakarta, Eza said.

Earlier, President Susilo Bambang Yudhoyono said the government would continue to provide fiscal incentives and speed up infrastructure development in the next two years to maintain domestic real sector momentum amid the global economic crisis.

"We have decided to intensify and expand infrastructure development. I have checked each project one by one, where it will be located and how many workers it will employ," he said in an address to the annual meeting of the Indonesian Chamber of Commerce and Industry (Kadin).

## **On-month deflation likely in December**

Indonesia is likely to experience on-month deflation of around 0.56% this month due to lower fuel prices and overall weakening demand, the Central Bureau of Statistics (BPS) said Tuesday, Dow Jones reported.

"The potential for deflation occurring in December is very great (due to) the two-fold decrease in gasoline and diesel prices that the government was able to implement as oil prices have declined recently," BPS chairman Rusman Heriawan told reporters.

"There are no (potential) shocks visible to the prices of goods, and it is certain that transportation (costs) will not rise but rather will fall," he said.

"With this potential deflation, it is very possible that full year 2008 inflation could be below 11%," Heriawan added.

BPS assesses full-year inflation based on the on-year consumer price rise in December. November's on-year CPI rose 11.7%.

"We are still observing (what) the effect of Christmas and New Year (will be), but I don't think there will be large consumption (increases)," Heriawan added.

BPS will release official December CPI data at the beginning of January.

## **INVESTMENT**

### **2009 investment target revised down**

Indonesia's total investment is expected to be around \$17 billion in 2009, the chairman of the country's investment board said on Monday, lower than an earlier target of around \$20 billion due to the global economic crisis, Reuters reported.

The government has sought to make its investment climate more attractive, but the country, a major exporter of commodities such as palm oil and rubber, is already seeing a slowdown on the back of the slide in commodity prices.

"We expect the investment to be around \$17 billion," Muhammad Lutfi told reporters when asked about the forecast for 2009.

He said the board would focus on boosting investment in agribusiness, energy and agriculture.

Lutfi had forecast on June 25 that the total investment in 2009 would be \$20 billion for 2009.

Lutfi said total investment, which includes domestic investment, in January-November this year had reached \$16.08 billion, helped by investments in the telecoms sector, plantations, electronics and food industry.

Foreign direct investment rose 73% to \$10.3 billion last year while domestic investment climbed almost 70% to \$3.17 billion on the back of political stability and an improving economic outlook. The data does not cover oil and gas, banking and insurance.

### **Indonesia, China sign \$3.2B energy deals: Minister**

Indonesian and Chinese companies Monday signed energy deals worth a total \$3.2 billion, Energy and Mineral Resources Minister Purnomo Yusgiantoro said, Dow Jones reported.

Yusgiantoro said Export Import Bank of China will provide a \$481.9 million loan for the development of a coal-fired steam and power plant, and another \$293.2 million for the development of the coal-fired Pacitan power plant.

China National Technical Import and Export Corporation (CNTIC) will build a 660-MW coal-fired power plant in Cilacap, Central Java, with an investment of \$605.3 million, Yusgiantoro said.

The three power projects are part of the 10,000 MW "crash program" to boost capacity being managed by state power company PT PLN. The first of the stations are due to come on stream in 2010, relieving critical current shortages of power.

Upstream oil and gas regulator BP Migas also signed a preliminary agreement on negotiations for an extension of an oil and gas production sharing contract between the China National Offshore Oil Corporation (CNOOC) and Husky Oil (Madura) Ltd. on the Madura Strait block. Cnooc and Husky are seeking for a 20-year extension of the current contract, which expires in 2012.

ZTE Agribusiness Ltd., and PT Kurnia Selaras will invest \$255 million in a biodiesel plant in Jambi and South Sumatra.

Beijing Guohua Electric Power Ltd. signed an agreement to sell electricity to PLN for 4.815 US cents/kilowatt hours starting 2011. The Chinese company will build two 113.5 MW coal-fired power plants in South Sumatra with investment of \$330 million.

Lark Guangdong Power Resources Inc. will invest \$350 million in a coal mining project in East Kalimantan with PT Bumi Dharma Kencana.

## **Govt. plans to issue retail sukuk on February 25: Official**

The government plans to issue its second retail Islamic bond (sukuk) in the domestic market on February 25, 2009, a government official said Tuesday, Dow Jones reported.

"(The amount) will depend on the proposal from our selling agents on how much they think they can sell," said Rahmat Waluyanto, the Director General of State Debt Management at the Finance Ministry.

The government on Monday named 13 selling agents, consisting of local and foreign brokerage companies and banks.

Waluyanto said that the selling agents will market the planned sukuk from February 6 to February 20.

The government will use the proceeds from the issuance of its second retail sukuk to help finance the deficit in the state budget.

## **Japanese generator firm expands in Indonesia**

Japanese generator producer Denyo is expanding its factories worth Rp22 billion in Bekasi, West Java, in response to increasing demand, chief executive officer of PT Dein Prima Generator, Akmam Dahlan, said on Tuesday, Antara reported.

The expansion follows on a \$1 million first phase expansion completed last year.

Dahlan said that with the expansion of Denyo's factories in Indonesia, Japan is using Indonesia as a base for its generator production in the Asia-Pacific region.

With a divestment of shares in 2001, PT Denyo Indonesia changed its name to PT Dein Prima Generator.

Dahlan said the Bekasi expansion is expected to increase Denyo's production from 6,000 units per year to 10,000-15,000 units a year.

## **REFORM**

### **Govt. announces moves to speed up trade administration, cut costs**

The finance minister on Tuesday announced measures to speed up and reduce costs for imports at two of the country's key ports, using a centralized electronic system to obtain government approvals, Reuters reported.

"This system is aimed at reducing the cost the importers have to bear," said Finance Minister Sri Mulyani Indrawati.

The system, known as the National Single Window (NSW), has undergone a trial period over the past year. It is a major plank in Presidential Instruction No V, issued earlier this year as the legal instrument for a raft of reform moves drafted by the Coordinating Ministry for Economic Affairs. As such, it is the third such package of reforms during the term of the present government.

Susiwijono, chairman of the NSW management committee, said that the new system allows all 4,852 registered importers to deal with the relevant agencies and ministries electronically, including the Customs Department, Food and Drug Supervisory Agency, and Quarantine Agency.

"Previously, they had to go from one building to another if they wanted to get the required import documents," he said.

Susiwijono added that the system would be introduced for a small number of registered importers in East Java's Tanjung Perak port, North Sumatra's Belawan port, and at Jakarta's Soekarno Hatta airport.

The measures, which apply to licensed importers, come into effect immediately at Tanjung Priok and the Central Java port of Tanjung Emas.

They are intended to improve the process of importing goods into the country, which has traditionally been plagued by bureaucracy and graft.

## **STATE CONCERNS**

### **Some growth but manufacturing growth target lowered**

Manufacturing industry in Indonesia is projected to grow only 4.8% this year, down from the target of 8.4%, Antara reported.

There was a high growth rate in several sectors such as transport, machinery, food and beverage, the head of the industry ministry's research and development division, Dedy Mulyadi, told a meeting on Tuesday on performance during 2008.

At the end of the year there have been indications of a 30% decline in manufacturing production. The transport, machinery and tools industries saw growth of 13%.

Industries that recorded negative growth included textiles, leather goods and footwear, cement and non-metal industries.

Manufacturing industries that recorded positive growth in 2008 were food, beverage and tobacco industries (3.2%), paper and printing industries (3.9%), fertilizers, chemical and rubber-based product industries (1%) and base metal, steel and iron industries (3.1%), means of transport, machinery and tools industries (11.59%).

Ministry secretary general Agus Tjahajana said the government would strive to overcome smuggling to improve conditions for the textile and textile products and footwear industries.

The main problem with wood-based and forestry industries was the supply of raw materials. Nevertheless industry prospects were solid because of increasing prices of similar products in China, a major competitor.

Director General of Small and Medium Industries Fauzi Azis said the sector had not been seriously affected by the downturn in international trade because 90% of its market was domestic. Exports declined but domestic retail demand had increased.

### **Tourist spending expected to drop in 2009: Ministry**

The tourism ministry said Tuesday it expects tourist spending next year to be hit by the global economic crisis, but added that the number of visitors was likely to be in a similar range to this year, Reuters reported.

Earnings from tourism are forecast to fall to \$6.5 billion next year, from an estimated \$7.57 billion in 2008, the ministry said in a statement, with the average tourist expected to spend \$1,000 per visit to Indonesia next year, compared with \$1,178 per visit in 2008, and \$970 in 2007.

The ministry also forecast that foreign arrivals would be between 6.25-6.5 million in 2009, compared with a preliminary figure of 6.4 million for 2008.

The tourism industry accounts for about 3% of gross domestic product in Indonesia but accounts for a much higher proportion of the local economy in certain areas such as Bali.

## **SOEs**

### **Govt. may increase stake in Semen Gresik**

The government may increase its share ownership in the country's largest cement maker, PT Semen Gresik, after the establishment of a holding company to group the shares of several state-run cement producers, *The Jakarta Post* reported.

Secretary to the State Minister for State Owned Enterprises Said Didu said the government would be able to raise its stake in the company should minority shareholders agree to swap their shares for an equivalent in (waived) tax obligations.

"For state-owned firms, the government options will either be to pay (the taxes) or swap (the taxes) for the stakes. So I believe there will be a jump in the government's share ownership in Semen Gresik," he said.

The forming of a holding company will result in an additional tax for shareholders because there will be a revaluation of the assets of Semen Gresik.

Currently, the government has a 51% stake in Semen Gresik, while 24.9% is held by the public and 24.1% is held by Blue Valley Holdings -- a subsidiary of the Rajawali Group.

The government is also expected to form a holding company for state-owned companies engaged in mining, plantations and banking. The holding company for banking is scheduled to be completed in 2010.

At present, there are 139 state companies with assets worth in excess of Rp1,300 trillion (\$142.8 billion).

State companies are expected to pay the government Rp31.5 trillion and Rp35.0 trillion in dividends for 2008 and 2009 respectively.

### **Merpati to lease 12 airplanes in 2009**

State-owned airline company PT Merpati Nusantara will lease 12 airplanes to reinforce its fleet and increase its flight routes in eastern Indonesian regions in 2009, president director Bambang Bhakti said, Antara reported.

"Merpati will lease 12 aircraft, which include seven turbo-prop airplanes and five Boeing 737-300 and 737-400 jet planes," Bhakti said at the office of the minister for state enterprises on Tuesday.

He said that in order to lease the planes Merpati would cooperate with a number of regional administrations in the country's eastern regions.

Bhakti said that it would cost about \$40,000 to lease a turbo-prop aircraft per month and about \$100,000 for full-jet Boeing 737-300 and 747-400 aircraft. Turboprop planes with a capacity for 20 to 30 passengers will be used to fly over routes in isolated regions.

He said at least three regional administrations had expressed interest in a joint operation cooperation (KSO) with Merpati: Merauke, Sorong and Waringin Timor and leasing companies were ready to cooperate.

Merpati currently has three turboprop planes serving routes in pioneering regions in eastern Indonesia, and 21 Boeing aircraft to serve national routes.

## **PRIVATE SECTOR**

### **Bakrie settles debt in Bumi deal**

Bakrie & Brothers, which owns stakes in plantations, telecoms, coal, and property firms, said it had solved its debt problem following a deal with private equity firm Northstar Pacific, Reuters reported on Thursday.

"The Northstar deal solved the outstanding debt problem," said Nalin Rathod, president director of Bakrie & Brothers, in a press statement.

Bakrie Bros' debt has now been halved to \$627 million, the group said, following deals with various investment firms which have repaid or taken over Bakrie loans in exchange for shares in Bumi Resources, Indonesia's biggest coal miner and the Bakrie group's prize asset.

Bakrie Bros and Northstar have agreed to set up a 70-30 joint venture which will own a 21.4% stake in Bumi, the group said in its statement.

On Wednesday, the group said one of its creditors, Oddickson Finance, had agreed to sell \$575 million of Bakrie debt to Northstar.

It also said that hedge fund Brentwood Ventures Ltd had paid off another group debt of \$150 million to Indian lender ICICI Bank in exchange for Bumi shares, adding that 1.3 billion Bumi shares had been pledged against that loan.

Last month, Indonesian private equity firm Ancora Capital Management (Asia) took a stake of up to 5% in Bumi when it acquired shares held by JP Morgan as collateral against a loan to the Bakrie group of \$70-100 million.

Bakrie group said in its statement that following the deals it had a \$197 million debt, a Rp425 billion (\$39 million) debt, and a convertible bond valued at Rp4.26 trillion (\$391 million).

Bakrie Bros owns 42.6% of PT Bakrie Sumatera Plantations, 48.3% of PT Bakrie Telecom, 14.8% of PT Bakrieland Development, and 43.2% of PT Energi Mega Persada.

### **Qatar Telecom pushes bid for Indosat**

Qatar Telecom (QTel) announced on Wednesday it will proceed with a tender offer worth up to \$870 million to acquire a majority stake in mobile phone operator PT Indosat after the government withdrew conditions on the deal, the *Financial Times* reported.

QTel bought 40.8% of Indosat for \$1.8 billion in August but has balked at completing the compulsory tender offer after the government insisted the Middle East operator sell off Indosat's fixed-line assets within two years if it wanted to acquire more than 49% of the company.

Under Indonesian law foreigners can only own 49% of a fixed-line operator but can own up to 65% of mobile operators.

QTel had claimed that since the vast majority of Indosat's revenue is from the mobile sector it should be classified for ownership purposes as a mobile operator.

QTel confirmed on Wednesday in a statement it would pay Rp7,388 (\$0.66.5) per share for up to an additional 24.8% of the company.

It is not clear how many additional shares QTel will buy. In the past executives have only said they want a majority. At the current rupiah-US dollar exchange rate it would cost QTel \$331 million to buy the 9.2% required for a majority and \$870 million if it wants to own 65% of Indosat.

Abdullah bin Muhammad bin Saud Al Thani, QTel's chairman, said he was pleased to be in a position to move forward with the tender offer with Indosat's integrated business intact. "This puts Indosat in a great position to compete aggressively in the future," he said.

Analysts say Indonesia's mobile phone sector has excellent potential because penetration is only about 38% of the 230 million population.

## **Bakrie Telecom to build long distance phone network**

Fixed wireless telecommunications operator PT Bakrie Telecom is allocating \$200 million for capital expenditure to develop infrastructure for a long distance telephone network (SLJJ) in Indonesia after securing a license, Antara reported.

President director Anindya N Bakrie said in a written statement on Tuesday that 2009 would be the initial year for Bakrie Telecom as a full network service provider after the company secured a license for fixed local telephones, SLJJ and international telephone networks.

As the winning bidder Bakrie Telecom must meet the requirements including a performance bond worth 5% of total development investment in the first year.

Earlier, *Investor Daily* reported that the country's telecommunications operators are forecast to spend Rp87.2 trillion (\$8.7 billion) next year.

State telecommunications company PT Telkom alone plans to spend up to Rp24 trillion, its president Rinaldi Firmansyah said.

Most of the spending will be in rupiah in a bid to help the government cope with the impact of the global crisis, Firmansyah said, adding that banks are eager to provide financial support to help cover shortage in fund.

Spending by the telecommunications operators this year is predicted to reach \$7.5 billion.

## **Retail sales to grow 10% in 2009: Merchant group**

Despite an estimated slowdown in Indonesia's economic growth in line with the global economic downturn, the nation's retailers may still enjoy at least a 10% increase next year, says a retail association, *The Jakarta Post* reported.

The Indonesian Retail Merchants Association (Aprindo) said a cut in sales revenue growth was inevitable amid the current adverse global economic condition.

"But knowing that people always buy food whether the economy goes up or down, then a growth of at least 10% is certain," secretary general Rudy R.J. Sumampouw said.

At a time when many of the country's industries -- in particular export-oriented ones -- are struggling to cope with a weakening demand, a 10% growth in sales will still be good, although it will be slower than this year's estimated growth of 15%, he said.

"Even the 15% growth this year was lower than the initial projection of 20%," Sumampouw said, adding that by the end of 2008, retail sales involving Aprindo members would reach about Rp74.5 trillion (\$6.7 billion), up from Rp65 trillion in 2007.

Sales from Aprindo members contribute about 20% to retail sales nationwide, he said.

"So far this year there have been no reports of layoffs or store closures from our members. In fact, since 2007, retail stores have been growing around 15%," Sumampouw said, adding in 2007 the retail industry absorbed about one million workers.

Aprindo's 300 members have at least 7,500 stores nationally. It has five store formats: Hypermarkets, supermarkets, minimarkets, department stores and specialty stores such as single-brand outlets.

## **BANKS**

### **Sinar Mas still keen on Bank Century**

Publicly listed investment and financing company PT Sinar Mas Multiartha said on Monday it will take over ailing Bank Century once the government-supported Deposit Insurance Agency (LPS) completes its work, *The Jakarta Post* reported.

"Our interest in Century remains, but it will depend on the restructuring progress currently being handled by the LPS," said Sinar Mas president director Edward Hadidjaja.

Sinar Mas, owner of mid-size Bank Sinarmas and Sinarmas Securities, announced on November 17 a plan to buy a 70% stake in Century. The government on November 21 took over the bank when its capital adequacy ratio (CAR) plunged to negative 2.3%, well below the mandatory minimum of 8%.

Century has since been under the wing of the LPS, which has so far injected Rp2.5 trillion (\$221 million) into the bank, bringing its CAR back up to more than 10%.

Sources at Bank Indonesia (BI) have said Sinar Mas requested Century be restructured by LPS before the takeover could be completed as it perceived it to be far more risky to buy Century prior to supervised restructuring.

BI has said Century would likely stay under the LPS for at least six months.

The Sinar Mas Group, the parent of Sinar Mas Multiartha, is controlled by tycoon Eka Tjipta Widjaya, the former owner of Bank Internasional Indonesia.

### **NISP announces name change**

Singapore-based Overseas-Chinese Banking Corporation (OCBC), through its Indonesian subsidiary, Bank NISP, has announced a name change for the subsidiary to become Bank OCBC NISP, *Banking Business Review* reported.

OCBC Bank said that the name change has been approved by Bank Indonesia.

Pramukti Surjaudaja, the chairman of Bank OCBC NISP, also announced that the bank has changed the structure of its board of commissioners and board of directors.

OCBC Bank holds 74.73% share ownership in Bank OCBC NISP.

## **POWER**

### **Power supply to improve next year: Official**

Power supply in 2009 would be better even though blackouts will still be possible, according to Director General of Electricity and Energy Utilization at the Energy and Mineral Resources Ministry, J Purwono, Antara reported on Monday.

Demand for power would tend to decrease as a result of the impact of the global crisis. "At the same time, people have now become efficient in using electricity," he said.

On the supply side, capacity would be increased by the completion of coal-fired power plants as part of the 10,000 MW crash program. These would include plants at Labuan in Banten, Rembang in Central Java and Indramayu in West Java.

Purwono said coal supplies for the power plants would be secure as production would reach 250 million tons of coal, with the power industry requiring a maximum 50 million tons. He added that problems of price and transportation needed to be settled immediately.

## **OIL & GAS**

### **Indonesia '08 crude oil output likely above target**

Crude oil production will likely reach 988,600 barrels a day in 2008, slightly above the government's target of 977,000 barrels a day, Dow Jones reported.

R Priyono, chairman of upstream oil and gas regulatory body BP Migas, said oil output averaged 970,000 barrels a day during the first 11 months of 2008 and is expected to continue rising during the remainder of the year. The country produced 900,000 barrels of a day in 2007, he said.

The government's revenue from oil and gas may increase by about a third to \$30 billion this year, up from \$23 billion in 2007 on higher oil prices and a larger output, he said.

Priyono said that the ongoing global crisis will affect Indonesia's oil and gas industry, but said he hasn't heard large oil and gas companies revising their investment plans for next year. "Large investors usually have their own sources of funds," he said.

### **Chevron plans to invest \$3B to boost production**

Chevron Corp.'s Indonesian unit, which this year accounts for about 42% of the country's oil output, may invest \$3 billion to boost production from a Sumatran field, Bloomberg reported.

A \$170 million pilot project is being conducted until 2011 to test the new technology that uses chemical injection to produce oil, deputy of operations at state oil and gas regulator BP Migas Eddy Purwanto said on Friday.

The company will use a new drilling technique to increase its extraction rate to tap 800 million barrels of oil that is currently inaccessible, Purwanto said, adding that if the project is a success the company will "continue on a larger scale.

Chevron is turning to new drilling techniques to halt a drop in production. Oil output from its Indonesian operations may decline to an estimated 382,000 barrel per day (bpd) next year against an estimated 405,000 bpd this year, Evita Legowo, Director General of Oil and Gas, said in September.

In September the president director of Chevron's Indonesian unit, Suwito Anggoro, said the company's Sumatra concessions including the Duri and Minas areas may produce an average 405,000 barrels of oil a day this year, lower than the 408,000 barrel-a-day target set by the government or 425,000 barrels a day last year.

### **Pertamina to spend \$200m for fuel storage terminals**

State oil and gas firm PT Pertamina plans to spend at least \$200 million next year to upgrade two of its storage terminals to support its distribution network, after it was reappointed as the sole distributor for subsidized fuels for 2009, *The Jakarta Post* reported.

About \$130 million of the planned investment will be spent completing the construction of a storage terminal in Tuban, East Java, and the remaining \$70 million on a storage terminal in Bau Bau, Southeast Sulawesi, Pertamina's marketing and trading director Achmad Faisal said Wednesday.

He said the terminal in Tuban would have a 250,000-kiloliter capacity. "Construction has begun and we expect to complete the terminal by the end of 2009," Faisal said.

The storage in Bau Bau will have a 90,000-kiloliter capacity and is designed to secure fuel supply to the eastern part of Indonesia.

"The terminal project will begin next year and is expected to be completed in 2010," Faisal said, adding that the two projects were part of the company's effort to secure fuel supplies across the country.

## **PGN expects sales to rise next year**

State natural gas distributor PT PGN expects sales to rise as much as 33% next year as it increases supply to utilities, Bloomberg reported.

The company may sell on average between 700 million cubic feet a day and 800 million cubic feet a day of gas in 2009, depending on economic conditions, president director Hendi Prio Santoso said during a conference call with analysts and reporters Monday. That compares with as much as 600 million cubic feet a day this year.

PGN expects utilities to account for as much as 40% of its sales next year, Santoso said. The Jakarta-based company signed three new contracts this year to supply 210 million cubic feet of gas a day to power plants operated by state power company PT PLN.

Increased sales to domestic utilities will more than offset declining demand from factories.

## **Oil, gas production expenditure projected at \$12.9B**

The Upstream Oil and Gas Regulating Body (BP Migas) said expenditures for gas and oil exploitation and production activities in 2009 are estimated at \$12.9 billion, agency head R Priyono said on Tuesday, Antara reported.

According to Priyono, the expenditure consisted of \$3.73 billion for drilling 1,273 wells, \$2.85 billion for production facility financing, \$4.7 billion for production operations and \$1.63 billion for general administration.

Priyono said that the figure was still provisional as only about 53 to 64 contractors had entered the production phase.

"The expenditure costs will likely still increase," he said, adding that exploration activities in 2009 would cover 202 wells.

Geological and geophysics studies would cost \$173 million which will include two dimensional seismic surveys on 21,405 km of land and three dimensional seismic surveys on 7,124 km sq.

"This is also still provisional because it covers 50 production blocks of the 71 existing production blocks," he added

## **MINING**

### **Sasol to launch coal liquefaction operations in Indonesia**

South Africa's Sasol Ltd. will begin liquefying coal to produce gasoline and other oil products in Indonesia, a move expected to give a boost to the government's energy strategy amid a decline in crude oil output, Nikkei reported on Thursday.

According to the Energy and Mineral Resources Ministry, Sasol -- the world's leading coal liquefier -- will invest some \$10 billion by 2015 to build coal liquefaction plants in the eastern part of Kalimantan and the southern region of Sumatra.

The firm will team with several local raw materials firms, including top coal miner PT Bumi Resources and state-owned oil and gas firm PT Pertamina, to produce oil products from low-calorie, low-grade coal.

Initial daily output is projected at 80,000 barrels. The eventual target is envisioned at 1 million barrels, according to the ministry.

President Susilo Bambang Yudhoyono is scheduled to visit South Africa in February to sign a memorandum of understanding on plant construction.

"The project will use low-price lignite, and there will be no profitability problems so long as crude prices hold above \$35 per barrel," according to a ministry official.

Lignite, also known as brown coal, accounts for 60%, or about 36 billion tons, of Indonesian deposits.

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