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REPUBLIC OF INDONESIA

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POLITICS

President warns over budget misappropriation

President Susilo Bambang Yudhoyono said the government will not tolerate misappropriation of the state budget and regional budget, arguing the budgets are public funds used for improving the people's interest and welfare, Antara reported.

"We must ensure that the enormous budgets will not be followed by cases of misappropriation, mismanagement and corruption," the president said in an address to the Regional Representatives Council on Friday.

The amount of regional budget funds in the revised 2008 state budget more than doubled to Rp292.4 trillion in 2008 from Rp129.7 trillion in 2004, he said.

The government is committed to maintaining the massive regional budget allocations to implement decentralization and autonomy in a consistent and responsible way, Dr. Yudhoyono said.

"Indeed, the budget allocations (for the regions) must follow their functions and responsibilities. The greater the responsibilities delegated to the regions the greater the amount of budget allocated to them," he said.

Part of the increased budget will be used to assist low-income people and finance poverty eradication programs, he said, adding the central government needed to remind the regions that they also serve as a spearhead for national development.

"The regions are the frontline in improving standards of living. The enormous budget allocated to the regions must be followed with competence and full responsibility to manage it properly and transparently for the benefit of the people's prosperity and welfare," Dr. Yudhoyono added.

FPI leader charged for inciting violence, facing jail

Prosecutors charged the leader of a hard-line group on Thursday with spreading hatred and inciting his followers to attack an interfaith rally in Jakarta in June where dozens of people were injured, Reuters reported.

Members of the Islamic Defenders Front, or FPI, attacked the peaceful rally after some speakers urged tolerance over the treatment of the Islamic sect Ahmadiyah, which some Indonesians consider "deviant".

Prosecutors said Habib Rizieq Shihab, head of FPI, had urged his followers to attack members of Ahmadiyah a few days before the June attack.

Shihab denied the accusation at a Central Jakarta court where security was tight. Hundreds of FPI followers attended the hearing. Shihab, who is in custody, faces a five to nine-year sentence if found guilty.

Militant Muslim groups have attacked mosques and buildings associated with Ahmadiyah.

Some militant groups, especially since the fall of former president Suharto in 1998, have sporadically acted as vigilantes, attacking red light areas, liberal publications, and places considered offensive to their form of Islam.

Census to cost Rp5-6T

The Central Bureau of Statistics (BPS) estimates it will need Rp5-6 trillion (\$545-654 million) to carry out a national census in 2010 the results of which will be of the highest possible accuracy, a development planning official said, Antara reported.

"This is the total budget for the implementation of the census in detail in 2010, the necessary preparations beginning in 2008, and everything else up to the end of the counting process," Subagio Dwijosumono, principal secretary at the National Development Planning Board (Bappenas), said Wednesday.

He said in the years leading up to the census the bureau would organize training courses for the census-takers and a number of pilot projects.

"For the realization of the 2010 census, we need at least 450,000 census takers," he said.

Considering the limited number of BPS's own personnel (13,000 census takers), the bureau was planning to outsource additional manpower for the field work.

REGIONS

Development disparity still a problem: SBY

President Susilo Bambang Yudhoyono said the acceleration of development in some areas is needed as there is still wide disparity in regional development, Antara reported.

"The government has been aware of these disparities for some time," the president said in a policy speech at a Regional Representative Council (DPD) plenary session Friday.

According to Dr. Yudhoyono, such conditions have resulted in low productivity and a high poverty rate and an accelerated effort for those regions is underway.

A total of 199 districts are categorized as 'underdeveloped' due to local economic conditions, human resources, infrastructure, financial conditions and accessibility factors, with 62% of them located in Indonesia's eastern region, 29% in Sumatra and 9% in Java and Bali.

Researchers find trends in study of H5N1 cases

Public health officials from Indonesia recently published an analysis of nearly all of the country's H5N1 avian influenza cases, revealing that death was more likely in those who received antiviral treatment late, were not part of a cluster, and lived in an urban area, CIDRAP reported.

The study, published online August 15 in *The Lancet*, was authored by officials from Indonesia's Directorate General of Disease Control and Environmental Health, the country's health ministry, as well as authorities from laboratories and health organizations. It includes data from public health investigations and, when available, patients' clinical information.

The evaluation covered all confirmed human cases from June 22, 2005, when Indonesia recorded its first H5N1 infection, to Feb 1, 2008. Included were 127 patients, 103 (81%) of whom died.

The case-fatality rate (CFR) rose from 65% in 2005 to 86.8% in 2007. However, Indonesian officials say the rate has declined so far in 2008. According to a report that appeared August 15 on the web site of the health ministry's avian influenza committee, the CFR from January through July was 84.2%, based on the 19 cases and 16 deaths recognized by the nation (the World Health Organization has recognized 18 cases with 15 deaths).

Only two of Indonesia's 127 infected patients were not hospitalized. One had a mild infection and received outpatient care, and one refused treatment and died at home.

A review of 108 clinical histories showed that symptoms during the first two days after onset were nonspecific in most cases. Thirty-two (30%) patients had fever and cough, and nine (8%) had fever and dyspnea.

Of the 125 patients who were hospitalized, 104 were diagnosed with pneumonia immediately or shortly after admission.

Eighty-eight (69%) of the case-patients were treated with oseltamivir, and the median time between symptom onset and treatment was seven days (range 0 to 21). Patients who received the drug early were more likely to survive; those starting treatment more than five days after onset were more likely to die.

The authors report there were 11 case clusters that involved 28 patients. Infected patients who were not part of clusters were more likely to die, but researchers did not find any differences between cluster patients and non-cluster patients in terms of when they presented to a healthcare facility, whether they received oseltamivir, or how soon they received the drug.

Patients with secondary cases were more likely to survive than primary case-patients, and they received antiviral treatment about three days earlier than primary case-patients. The investigators acknowledge that secondary cases may have involved other early interventions as well. They also report that patients who had indirect exposure to the virus were more likely to die.

Death and survival patterns among patients in clusters deserve further study, the authors state. Though close-knit families may be exposed to a common viral source, the role of genetic susceptibility and H5N1 virulence may also play important roles, they note. "Further studies should therefore be done on clusters to elucidate the definitive causes of reduced case fatality."

Most patients were hospitalized too late and received oseltamivir too late, the group says. "Training and equipping of all H5N1 referral hospitals across Indonesia, together with increasing the number of referral hospitals, is in progress to address this issue."

The authors emphasize that early identification is often difficult, but more information from agricultural officials about local poultry outbreaks could help healthcare workers increase their index of suspicion for H5N1 infections.

Other measures that could help reduce the country's CFR from H5N1 infections include rapid diagnostic tests for field use and better case-management training for healthcare workers, they write.

Sanitation in 10,000 villages to improve by 2012

The government has announced plans to implement a program to improve sanitation in 10,000 villages by 2012. The program has been running since 2005 by building sanitation facilities and access to clean water in 500 villages, *Tempo* reported.

"We hope to apply this program in all provinces," Health Minister Siti Fadilah Supari said Wednesday.

Availability of sanitation and clean water can contribute to reducing the spread of contagious diseases, the minister said.

Supari added that with the program, the government hopes to raise the life expectancy of Indonesians to 70.6 years.

The government also aims to reduce death rate in babies to 26 per 1,000 births from the previous 30.8, as well as the death rate of mothers to 226 per 100,000 births from the previous 270 and malnutrition in children under 5 to go down to 20% from the previous 25.8%.

ECONOMY

Indonesia out of crisis: President

Indonesia has fully recovered from the economic crisis that began a decade ago, part of a multi-dimensional crisis that hit the country, President Susilo Bambang Yudhoyono told a plenary session of the Regional Representatives Council (DPD) on Friday, Antara reported.

The government also moved to seek higher prices for its natural resources, demanding higher rates for liquefied natural gas (LNG) exports to Japan and capping production levels for tin and other minerals.

The president, presenting an address on the government's regional development policies, said the country nevertheless faced many challenges in its efforts to be assured of a better future.

One of the indicators that Indonesia had come out of its economic crisis, he said, was the level of its present income per capita, which had increased to \$1,946 in 2007, an increase of 64% from \$1,186 in 2004 and surpassing the pre-crisis level.

Indonesia's GDP reached Rp3,957 trillion in 2007, making it one of the world's 20 largest countries in terms of GDP, he said.

Twelve of the country's 33 provinces recorded an economic growth rate in the first half of 2008 higher than the national figure of 6.4%, the president added. "Regional economic growth is one of the yardsticks of success in national economic development," he said.

Riau Islands, Central Kalimantan, South Kalimantan and Central Sulawesi had reached an economic growth rate of more than 8.5%, he noted.

To allow growth to be evenly shared, the government would adopt a policy of zero tolerance to corruption, the president added.

Indonesia also moved to improve returns from two major commodity items, LNG and tin.

Djoko Harsono, deputy director for finance and marketing at upstream oil and gas regulator BP Migas said Indonesia will increase by five-fold the prices of LNG it plans to sell to Japan from 2011 to \$20 per million British thermal units (mmbtu), Dow Jones reported.

But Harsono said that the country, the largest LNG exporter to Japan by volumes, understands it is also in its interest to "keep good relationship" with Japan in the longer term.

The government also confirmed plans to limit production of tin in a bid to support prices and extend the life of the local industry, the *Financial Times* reported.

Speculation about a new production cap helped fuel a jump of more than 6% in London tin trading on Thursday. Indonesia is the second biggest producer of the commodity behind China and accounts for about a third of world output. It is the world's largest exporter.

The new rule, which is expected to limit production to 90,000 tons this year and up to 100,000 tons in 2009, will be introduced within the next month, said Bambang Gatot Ariyono.

"We will consult with the local government first and then we will probably issue a ministerial decree setting the level of total production in the next month," Ariyono said.

Bambang Setiawan, Director General of Coal and Mineral Resources, said separately that the government also plans to cap the output of copper, gold, nickel and iron ore, Bloomberg reported.

"The main reason is to prevent over-extraction and to keep prices in the global market from declining," Setiawan said. "If there's too much supply prices will fall."

The Investment Coordinating Board (BKPM) said the country will reach its direct investment target of \$15.4 billion set for this year, Asia Pulse reported.

The implementation of investment projects in the first half of the year had already reached \$11.1 billion in value, BKPM chairman M. Lutfi said.

Foreign direct investment dominated the implementation of investment in the first six months of this year accounting for \$10.38 billion of the total value.

He added the government had decided to give priority to the development of chemical, metal and sustainable energy industries in the upstream sector.

BUSINESS BRIEFS

MACROECONOMY

First sukuk oversubscribed

All indications suggest the government's first domestic Islamic bond issue has been a success, with a \$1 billion dollar-denominated bond expected by November at the latest.

Investor orders for the government's maiden sukuk issuance have surpassed the indicative issue size of Rp5 trillion, bankers familiar with the deal said, Dow Jones reported.

The bankers could not specify the the exact amount of orders received as they are still being tallied.

A banker with Bank Mandiri told Dow Jones Newswires that the state-owned bank had received around Rp3 trillion (\$327.5 million) of orders by the Thursday 0700 GMT deadline.

Meanwhile, a banker with PT Danareksa said that it has gathered Rp2 trillion of orders as of early Thursday. The bankers added that it was not known how many orders the third underwriter, Trimegah Securities, had received.

The sale of seven- and 10-year bonds applies the ijarah leasing structure backed by Rp18 trillion in land and buildings.

Indonesia's January 2018 conventional US dollar bond, which will act as a pricing benchmark for the upcoming US dollar sukuk, was trading Tuesday at a 6.9% yield while its January 2016 bond was at a 6.76% yield.

The rupiah-denominated sukuk will be followed by the sale of a US dollar-denominated global sukuk, likely by mid-November.

The government has chosen Barclays Capital, HSBC and Standard Chartered Bank PLC to arrange the maiden US-dollar denominated global Islamic bond.

The three were selected out of a shortlist of six banks that also included Citigroup Inc., Deutsche Bank AG and Lehman Brothers.

The sukuk represents a new way for Indonesia to finance its budget deficit, forecast to hit 1.8% or more of gross domestic product this year - and in a belated attempt to kick start the shariah-compliant financing sector in the country.

Meanwhile, the central bank is revising regulations to allow the country's Islamic banks to trade their shariah bonds in the secondary market, deputy governor Siti Fadrijah said.

Under current regulations, shariah banks are only allowed to use sukuk for investment by holding the bonds until their maturity dates, while conventional banks are allowed to trade sukuk in the secondary market.

The revisions will allow "shariah banks to use shariah bonds not only for investment, but also to be traded according to the regulations in the secondary market", Fadrijah said.

Indonesia still lags neighbors such as Malaysia in developing Islamic products. With Muslims accounting for 85% of the population of 230 million people, Indonesia is considered a huge potential market for the Islamic finance industry.

Govt. targets Rp3T at August 26 auction

The Finance Ministry said on Tuesday it aims to raise a total of Rp3 trillion (\$326.6 million) from an auction of government debt paper on August 26, to help plug the country's budget deficit, Reuters reported.

The government planned to sell bonds maturing in 2019 and 2038 as well as treasury bills at the auction, a ministry official said, after raising as much as Rp5.45 trillion a week earlier, almost double its target of Rp3 trillion.

A healthy response by investors to last week's auction indicated confidence in the country's inflation outlook, despite upward pressures on prices expected during the Muslim fasting month in September, some analysts have said.

Annual inflation accelerated to 11.9% in July, against 11% in June, the highest in almost two years and exceeding an 11.2% market forecast.

Inflation spiked to double digits after a near 30% hike in subsidized fuel prices in May.

INVESTMENT

Bin Laden Group to invest \$1.53B in Sulawesi

A foodstuff consortium from the Middle East is planning to invest some Rp14 trillion (\$1.53 billion) in Southeast Sulawesi through Saudi Arabia's Bin Laden Group, a senior local government adviser said, Asia Pulse reported.

Prof. Dr. La Ode Masihu Kamaluddin, chief adviser to the regional governor on investment and trade, said that a Memorandum of Understanding (MoU) had been signed by the regional government and Bin Laden Group in Jakarta on August 14.

Kamaluddin acted for the provincial government, while Bin Laden Group was represented by head of the Middle East Foodstuff Consortium, Hasan Mohammad Bin Laden.

The signing took place at the office of the chief adviser for President Susilo Bambang Yudhoyono for Middle East issues, Alwi Shihab.

Kamaluddin said the project in Southeast Sulawesi requires funding for rice seeds for some 160,000 hectares from Saudi Arabia, along with establishment of farming infrastructure.

"We have agreed on cooperation to provide 80,000 hectares of land. Next, the consortium from the Middle East will come with seeds, high-tech devices, money and management," he said.

Essar may spend \$50M to boost steel output

Essar Steel Ltd., India's fourth-largest maker of the metal, may spend about \$50 million on a plant in Indonesia to boost capacity by a quarter within two years, Bloomberg reported.

Capacity will be increased to 500,000 metric tons from 400,000 tons, K.B. Trivedi, the president director of unit PT Essar Indonesia said. The unit, which produces cold-rolled coil and other products, will expand its plant in Cibitung, West Java.

Essar is seeking to tap domestic demand, with infrastructure projects expected to support growth. The economy expanded 6.4% in the second quarter.

"We think domestic demand will grow because the Indonesian economy is starting to improve," Trivedi said.

Independent News completes Jakarta purchase

Ireland's Independent News & Media announced that it has completed the purchase of a 20% stake in Jakarta-based media group PT Abdi Bangsa, Dow Jones reported.

PT Abdi Bangsa continues to report strong growth, with revenues for the half year to June increasing by 24% year-on-year to Rp66 billion (\$7.2 million).

PT Abdi Bangsa is the publisher of *Republika*, one of Indonesia's largest circulating national daily newspapers and has interests in online publishing, radio, magazine publishing and outdoor advertising.

STATE CONCERNS

Govt. to restrict new factories outside estates

The government is preparing a draft regulation banning construction of new factories including expansion units outside industrial estates, Asia Pulse reported.

The draft regulation is expected to be signed by President Susilo Bambang Yudhoyono before the end of this year, said Edy Putra Irawady, a deputy at the Office of the Coordinating Minister for Economic Affairs.

The draft regulation will allow exceptions for certain factories which have to use certain basic materials and operate in certain locations such as cement factories, the newspaper *Bisnis Indonesia* said.

Violation of the regulation will face administrative sanctions such as suspension or revocation of business license.

The regulation is aimed mainly at simplification in the management and processing of industrial waste and for efficiency in supply of energy and provision of supporting facilities.

Govt. to hold Wimax tender

The government has said it will hold a tender to select the operators of broadband wireless access (BWA) of Wimax early October, Asia Pulse reported.

The operators will have frequency allocation at 3.5 GHz and 2.3 GHz, said Suhono, the chairman of the BWA Committee at the office of the state minister for communications and information.

Suhono said the draft regulation on the operation of BWA is expected to be available next month that tender could be held early the next month.

Wimax is a broadband wireless access technology with a speed of up to 70 megabit per second (Mbps) and with coverage of up to 50 km, the newspaper *Investor Daily* said.

Indonesia to be world's largest producer of rubber

Indonesia is expected to become the world's largest producer of natural rubber in 2020 with production forecast to reach 4 million tons, Asia Pulse reported.

"World natural rubber production is expected to reach 13 million tons in 2020 and Indonesia is predicted to become the world's largest producer with an output of 4 million tons," Agriculture Minister Anton Apriyantono said.

Currently the world's largest producer is Thailand with Indonesia the second followed by Malaysia in third place.

Apriyantono said the country will utilize the momentum of high prices of natural rubber to boost production.

The government will revitalize rubber plantations through replanting to increase productivity, Apriyantono said.

The country rubber plantations are more extensive than those in Thailand but many are not well cared for, resulting in low productivity. Apriyantono said revitalization will especially concentrate on smallholders' plantations.

Indonesia's natural rubber exports in 2007 reached a total value of \$4.6 billion, accounting for 40% of the overall amount the country earned from export of agricultural commodities, he said.

Indonesia to launch new forest program

Forestry Minister M.S. Kaban says Indonesia will launch a program called people's plantation forests (HTR) to boost the rate of reforestation, Asia Pulse reported.

With the HTR program the country hopes to be able to recover 5.4 million hectares of damaged production forest in 10 years.

SOEs

Govt. sets up first holding company

After a two-year delay, the government is set to announce a holding company to parent state firms engaged in fertilizer production, *The Jakarta Post* reported.

Secretary for the State Ministry of State Enterprise, Said Didu, said recently the ministry had set up a new company, PT Agro Kimia Indonesia, to oversee four state fertilizer companies.

"The aim of the holding company is to open wider access for state firms to raise funds for expansion and to boost coordination between state firms in the same sector," said Didu.

With its massive combined assets, the holding company will look to the stock and bond markets to raise funds, and its large collateral will enable it to seek loans.

Agro Kimia will have as its subsidiaries PT Petrokimia Gresik in East Java, PT Pupuk Iskandar Muda (PIM) in Nanggroe Aceh Darussalam, PT Pupuk Sriwijaya in South Sumatra and PT Pupuk Kaltim in East Kalimantan, he said.

"All of the companies will be treated as subsidiaries," Didu said. "At present, Pupuk Sriwijaya has acted unofficially as the holding company, which turned out to work ineffectively."

The ministry expects that in the near future Agro Kimia, as the official holding company, will expand its operations into other agriculture-related business, including pesticides.

Agro Kimia will immediately raise Rp2.8 trillion (\$307 million) from banks or financial markets to help revitalize fertilizer plants in East Kalimantan and East Sumatra, he added.

Dividends for 2009 budget set at \$3.8B

The government is optimistic that state enterprises (SOEs) will contribute dividends worth Rp35 trillion (\$3.8 billion) to the 2009 state budget, up from the target of Rp31 trillion this year, Asia Pulse reported.

"We are optimistic that the Rp35 trillion dividends target will be achieved in line with the positive results of the restructuring of a number of SOEs," Said Didu, secretary of the Minister of State Enterprises, said.

Didu said that in 2008 the government projected a total profit from SOEs of Rp81.2 trillion, an increase of Rp17.2 trillion (13.4%) from a year earlier.

"There is no problem if dividend payments are higher. In the first semester of 2008, SOEs recorded an average 20% increase profit, higher than the previous 13% target," Didu said.

He said that the biggest dividend contribution would be obtained from the energy sector, where companies involved in mining; oil and gas were projected to contribute up to 53% of the total SOE dividends. The banking sector was expected to pay about 12.9% of the dividends.

In an effort to increase the performance of state-owned companies, Didu said the government was planning a strategy of 50%- 60% dividend payment ratios, leaving the companies with between 50% and 40% to fund expansion and for working capital.

However, the government in applying the strategy would not sacrifice SOE's development programs. "We have asked them one-by-one about their cash flow. Basically, the strategy should not disturb their cash flow," he said.

He said that there was exception for state companies which booked a profit but had accumulative losses in the previous year. The same treatment would also be given to state companies which booked a profit but faced a cash flow problem.

Steel producers to boost exports

Major steel manufacturers plan to raise their exports for the next three months to compensate for decreased local demand in the period surrounding the Islamic fasting month of Ramadhan and Idul Fitri, *The Jakarta Post* reported.

PT Krakatau Steel marketing director Irvan K. Hakim said the state steel maker, along with privately-owned PT Essar Indonesia and Gunung Garuda Steel Group, were raising exports this month through to October.

"It's impossible for us to lower our production during the period. Therefore, we are turning to exports," he told a press conference.

Also attending the conference were Essar president director K. B. Trivedi and Gunung Garuda commercial director Sujono.

During the period, Krakatau will increase its exports from 10,000 tons per month to 20,000 tons per month; Essar from 5,000 tons to 9,000 tons; and Gunung Garuda from 35,000 tons to 40,000 tons, according to Hakim.

The three companies' main export markets include Southeast Asia, the Middle East and Europe.

Angkasa Pura to invest \$44M in new airport terminal

State-owned airport operator PT Angkasa Pura I said it will invest Rp400 billion (\$44 million) to build a new terminal at the Ahmad Yani airport in Semarang, Central Java, Asia Pulse reported.

"The existing terminal is no longer adequate to serve the growing number of air passengers," company president Bambang Darwoto said.

Darwoto said the company will cooperate with the central Java provincial administration and the army, which owns the land on which the new terminal is to be built.

He said construction of the new terminal is expected to start this year, *Bisnis Indonesia* reported.

PRIVATE SECTOR

Google eyes SMEs to boost expansion in Asia

Google is targeting Indonesia's small and medium enterprises to boost its expansion in the region, *The Jakarta Post* reported.

The Silicon Valley giant is providing an opportunity for Indonesian SMEs to develop their businesses and find new customers by advertising on Google Adwords, a Google product aimed at businesses with limited cash flow.

"The thing we always have problems with in small businesses is cash flow. Sometimes it is a good month, sometimes not, so many small businesses are very pragmatic and adopt very cost-effective advertising strategies," Google Southeast Asia marketing manager Derek Callow said.

"Indonesia is an important market for us in Asia and it is important for us to help small businesses understand that AdWords is a great platform to advertise their businesses online."

Callow said online advertising, especially search marketing, could be a powerful driver of business growth for nearly 50 million Indonesian small and medium businesses.

To date, he said, the most popular Indonesian adverts in Google were those from travel, import-export and professional service companies, including accounting, legal, healthcare and financial companies.

Callow was speaking at a seminar on how Indonesian small and medium businesses could take advantage of targeted online advertising.

Eva Yusuf, associate director of Synovate Indonesia, said her company's research showed there were more than 23 million Internet users in Indonesia in 2007, projected to grow by more than 16% to almost 27 million users by the end of this year.

Manulife insurance posts 148% rise in income

PT Asuransi Jiwa Manulife Indonesia posted a 148% increase in premium income in the first half of this year compared to the same period last year, Antara reported.

The life insurance company recorded Rp666 billion (\$73 million) in premium income in the first six months of this year, up from Rp269 billion in the same period last year, company president David Beynon said.

Beynon attributed the increase to success in the sales of individual insurance both through agents and cooperation with banks in bancassurance, the newspaper *Bisnis Indonesia* said.

He said the company's investment is dominated by bonds accounting for 60% with investment in the stock market accounting for 18%.

Garment makers cash in on big foreign orders

The garment industry has been reaping profits this year filling out orders worth \$230 million placed by 17 branded garment producers from Germany, the United States, South Korea and Taiwan, *The Jakarta Post* reported.

The orders, which amount to a three-year high for the industry, were made out to 30 local garment manufacturers, said Henrietta Lake, the senior consultant of US agency for international development project Senada.

Lake said the global producers had been attracted by the competitive prices and high quality products offered by the industry's textile and garment manufacturers.

"The qualities of Indonesian garment products are better than other countries, including Bangladesh. Indonesian products are likely to be ready to take over China's market," she said.

She said Indonesia's garment prices were even more competitive than those of Vietnam, the Philippines, China and Cambodia.

The orders were placed by companies including Abercrombie & Fitch, Dewhirst, HanesBrands, J.Crew, JCPenney, GAP, Jones Apparel, Li & Fung, Linmark, Liz Claiborne, Nike, PIERS, Ralph Lauren, Target, Vanity Fair and Walmart.

Executive director of national textile research institute Indotextiles Redma Gita Wirawasta said GAP had placed an order for 12 million to 14 million items worth \$100 million and Walmart had ordered 11 million to 13 million items valued at \$80 million.

SOT and Marks & Spencer submitted orders for 8 million items, worth \$60 million.

"Orders from other global garment manufacturers like Target, Nike, Adidas, Levi's, Arrow and Van Heusen only reach less than \$50 million. However, their orders grow by an average of 10% annually," said Lake.

The country is the global garment market's 10th biggest provider and the US market's third biggest, Lake said, citing a recent study.

The country's garment exports reached \$2.1 billion in the first semester of this year, up 6% from last year.

BANKS

BRI provides \$108M in loan for shrimp farm

Bank Rakyat Indonesia has agreed to provide Rp1 trillion (\$108 million) in loans for PT Dipasena, which operates a large shrimp farm in Lampung, Asia Pulse reported.

The loan agreement was signed last month and disbursement will begin this month, a director of the state-owned lender, Sudaryanto Sudargo, told the newspaper *Bisnis Indonesia*.

Dipasena, which is owned by PT Central Proteinaprima (CP Prima), will use most of the loan to revitalize shrimp ponds operated by plasma farmers.

Sudargo said BRI has also received loan proposals from a number of plantations companies such as the Sinar Mas Group, Bakrie Plantations and Sampoerna Group.

By the end of June this year BRI recorded Rp24.46 trillion in corporate credits or 17.99% of its total outstanding credit of Rp135.9 trillion.

Bank BNI in talks with ICD on new shariah bank

Bank BNI is currently negotiating the capitalization of a new shariah bank it has agreed to set up in Indonesia in partnership with the Islamic Corporation for the Private Sector (ICD), the bank's chief said, according to an Antara report.

Bank BNI's target in the talks was for the planned shariah bank to be capitalized at \$500 million or Rp4.5 trillion with BNI holding only a minority stake, Bank BNI President Director Gatot M Suwondo said Friday.

"If the negotiations are successful, the shariah bank's capital will reach \$500 million or about Rp4.5 trillion. It will be the shariah bank with the largest capital in the country," he said.

Bank BNI and ICD signed a Memorandum of Understanding (MoU) in October 2007 to study the possibility of establishing a shariah bank as a joint venture, with Bank BNI's shariah unit serving as the embryo.

The shariah bank would be co-owned by the Islamic Development Bank (IDB) and was expected to generate benefits for BNI and the public in general.

Suwondo said BNI had decided to be just a minority shareholder in the joint shariah bank so that BNI would not need to spend too much on its participation in the bank and more foreign capital could be attracted.

"I hope the negotiations with ICD can be finalized this month so that we can proceed to implement the next phase of the plan," Suwondo added.

POWER

PLN to complete takeover, issue \$1.1B global bonds

State power company PT PLN will complete its Rp73 billion (\$7.9 billion) takeover of shipping company PT Bahtera Adiguna in September 2008, Antara reported.

President director of PT PLN Fahmi Mochtar said Tuesday that PLN has completed due diligence on the price of Bahtera's assets.

"According to an estimate of PricewaterhouseCoopers (PwC), Bahtera's assets are worth Rp73 billion, a figure which we will use," he said. PLN, he added, will use its own funds to buy Bahtera.

He said the takeover process has already received approval from the Minister of State Enterprises.

Mochtar added that by taking over Bahtera, transportation problems of coal for PLN's coal-fired power plants (PLTUs) could be overcome.

PLN has also formed a coal subsidiary, PT PLN Batubara, to better manage coal stocks. It will not act as a mining company but as an investment agency although it was planned to purchase a number of coal mining companies mostly of low capacity of around five million tons per year, Mochtar said.

PLN has projected that 25% of coal consumption would be secured by way of PLN Batubara.

The government has meanwhile sanctioned a plan by PLN to issue a global bond valued at \$1.1 billion.

PLN needs the funds to finance its crash program to build a number of coal fired power plants with a total capacity of 10,000 MW.

Power firm to build 25 micro-hydropower plants

Anticipating a possible energy crisis in Central Java, state power producer PT Indonesia Power will optimize its eight current micro hydropower plants and build another 25, *The Jakarta Post* reported.

The general manager of Indonesia Power's Mrica unit in Banjarnegara, Harlen, said that based on a company survey in early 2008, his unit had found at least 25 potential sites in Central Java.

"We have successfully built eight power plants in Banjarnegara and Banyumas regencies each capable of producing 1-2 MW of electricity," Harlen said. Banjarnegara is suitable for developing micro hydropower plants because of its many waterfalls.

"We are building another plant in Ketenger village which we hope will be up and running next year," he said. Each plant could supply power to 2,000 homes in a single village.

"The important thing for any micro hydropower plant is a waterfall or spring with continuously flowing water, even when there's drought, and Banjarnegara is just the place," Harlen said.

He added the company's limited budget created financial obstacles. About Rp30 billion (\$3.3 million) is required to build each unit.

Harlen said constructions cost would be co funded by PT Indonesia Power and the local administration under the profit-sharing proposal.

OIL & GAS

McDermott Indonesia completes CPP project

PT McDermott Indonesia, a Batam-based engineering and construction company in the offshore oil and gas industry, has completed construction of a central processing platform (CPP) worth \$450 million, *The Jakarta Post* reported.

The 15,700-ton facility, to be operated by ConocoPhillips in an oil and gas block just off Vietnam, is one of the largest in the Asia-Pacific region, said Michael Jeffers, general manager of McDermott's Batam operation.

"The project is a joint venture with Cuulong Su Tu Vang (a Vietnam-based oil and gas company)," he said. "We are grateful for the support of local governments in Batam and Riau Islands in terms of friendly policies that have enabled us to be more competitive," Jeffers said.

The construction began in September 2006 and involved around 1,000 local workers.

Riau Islands Governor Ismeth Abdullah said the completion of a facility of such magnitude was proof of the quality that Indonesian workers could offer.

CPP construction project manager Joshep Anand said the facility had been completed ahead of time. It had previously been estimated the facility would take a total 4.5 million working hours to build. However, it was built in only four million hours, Anand said.

Kuwait Energy forms oil joint venture with Medco in Somalia

Kuwait Energy Co. signed a partnership agreement with PT Medco Energi Internasional to form a joint venture in Somalia for oil exploration, Bloomberg reported.

"We signed the agreement on August 18," Sara Akbar, chief executive officer of Kuwait Energy, said. "The Somalia Petroleum Corp. will look after a whole spectrum of activities, including upstream, downstream, marketing and refining."

"The Somali government will hold a 51% stake in the new company, while Kuwait Energy and Medco will each own 24.5%," Akbar said.

Medco is Indonesia's biggest publicly listed oil company.

"We need to put all the plans together and start executing them, with the company becoming operational, within one month," said Akbar.

Kuwait Energy, which produces about 7,000 barrels of oil a day, owns 350 million barrels of oil and natural-gas reserves and plans to boost daily production to 15,000 barrels by the end of this year and to 50,000 barrels by December 2010.

MINING

Coal output may be boosted to ease blackouts

Indonesia may increase production of coal by 15% because the government plans to allocate supplies to local utilities and ease blackouts, Bloomberg reported.

Output may rise to 270 million metric tons in 2009 from as much as 235 million tons this year, Jeffrey Mulyono, chairman of the Indonesian Coal Mining Association, said.

The association hasn't made any calculations on exports, which stood at 180 million tons last year, he said.

Indonesia, which generates almost half of its electricity from coal, will need an additional 32 million tons annually by 2010, when 41% of capacity starts operations.

Power shortages have worsened as the government requires some factories to shift 10% of their operations to the weekend, when there's space generation capacity.

"Domestic demand will be calculated annually and companies must submit production plans every year to the government for approval," said Bambang Setiawan, Director General of Coal and Mineral Resources.

The regulation on sales requirements to utilities is expected to take effect next year, he said.

Bumi says H1 net profit down 58%

Indonesia's largest coal producer, PT Bumi Resources, reported a 58% slide in its first-half net profit, due to the absence of one-off gain from the sale of stake in its coal unit made last year, Reuters reported.

The company, controlled by the family of chief social welfare minister Aburizal Bakrie, said its net profit dropped to \$301.8 million in January-June period from 720.3 million a year ago.

The second largest firm in the Indonesia Stock Exchange by market capitalization said its sales revenue climbed 29.6% to \$1.49 billion.

The results were largely in line with the company's preliminary results announced earlier.

Last year Bumi reported a \$547.2 million gain on sale of investment in a subsidiary's share, after selling 30% stake in its coal units to India's Tata Power .

Bumi had said its coal output in the first half rose 5.1% to 25.7 million tons, but its sales were down by 10.4% to 25.4 million tons, resulting in a 36% rise in its inventory.

Indian firms to buy 83% stake in coal mine

Local engineering firm Subhash Projects and Marketing Ltd and power equipment maker Emco Ltd will jointly buy an 83% stake in coal mine PT Bism, Reuters reported.

The deal to buy a majority stake in the mine, which holds reserves of about 105 million tons, will be closed in a month's time, India's *Mint* newspaper said; quoting Subhash projects chairman Anil Sethi.

The coal would initially be sold to Indian clients until a 2,200 MW power project could be set up on India's east coast, the paper said, adding the location of the plant was yet to be identified.

Metals strength leads to three new ore plants

Three companies plan to build three iron ore plants worth a combined \$300 million in investment in South Kalimantan in an attempt to meet rising global demand for the product, *The Jakarta Post* reported.

The three are PT Meratus Jaya, PT Semeru Surya Steel and PT Mandan Steel, Industry Ministry director I Gusti Putu Suryawirawan said.

"Meratus and Mandan will respectively build a \$60 million and a \$220 million plant in Tanah Bumbu regency, while Semeru will build a \$40 million plant in Tanah Laut regency -- all in South Kalimantan," he said.

Meratus is a joint venture company co-owned by state-controlled mining firm PT Aneka Tambang and state-owned steel producer PT Krakatau Steel, while Semeru is a subsidiary of steel producer Gunung Garuda Group.

Mandan Steel is wholly owned by a Hong Kong steel manufacturer which imports iron ore from Indonesia, and will be the only foreign company in the Indonesian iron ore processing industry.

Meratus is scheduled to start construction in November, he said.

"Mandan will have to wait for (processing plant) designs, which are being formulated in its home country, before beginning construction -- likely to take place in February 2009."

"Semeru, which already had a groundbreaking ceremony in December 2007, will soon announce the commencement of its project."

Meratus and Semeru have secured raw material contracts for 15 and 30 years respectively, while Semeru has yet to secure a long-term supply.

Iron prices rose by 50% in the global market in the first semester this year, from a year earlier.

The metal price increases were triggered in part by high demand from China to help fuel the nation's turbo-charged economic growth.

Indika plans to acquire five coal mines

Coal miner PT Indika Energy plans to acquire five coal mines at a total cost of \$500 million, Reuters reported.

Indika's vice president for investor relations, Retina Rosabai, was quoted saying in *Bisnis Indonesia* the funding for the acquisition would come from the proceeds of its IPO.

Indika, which has a market capitalization of \$1.5 billion, raised \$300 million from the sale of 18% of its enlarged share capital in June.

"We are aiming to acquire those mines to support our business expansion," Rosabai said.

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