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POLITICS

Police Chief Seeks Tougher Terror Law

National Police Chief Gen. Sutanto has called for tougher laws to fight terrorism, suggesting that Jakarta adopt an Internal Security Act (ISA) such as the ones enforced in Singapore and Malaysia. He said that current legislation impeded investigations.

“We need something like the ISA because it has been effective in cracking down on terrorist cells in our neighboring countries,” he told The Straits Times in an interview in Washington on Thursday (25/1/07). “We are looking at options to strengthen our laws.”

Sutanto was in Washington on a four-day working visit for talks with senior officials from the US’s National Security Council, the Pentagon, the Central Intelligence Agency and the Federal Bureau of Investigation. Indonesian officials said the trip - his first as police chief - was aimed at forging closer links, especially in fighting terrorism.

During the occasion, the general said American technological assistance, among several other things, would be critical. But Jakarta was also looking for ways to refine its anti-terrorism laws to deal with terrorist network and other extremist groups in Indonesia.

He said current legislation placed law enforcement officials in a dilemma. They were compelled to produce substantial proof to apprehend and take suspects to courts. An ISA equivalent could enable detention on the basis of voice recordings of terror suspects. “This regulation will allow the police to arrest terrorist suspects with minimum evidence,” he said.

A second consideration in favor of the ISA was that it allowed indefinite detention. “We have a serious problem. We can only hold someone for a week, and then release him if we cannot find more evidence against him. It takes months or even years to work on terror suspects so that they will reveal the extent of their network.”

Court Freezes Suspect Millions

A Guernsey court on Monday (22/1/07) approved an application by the Indonesian government to freeze tens of millions of dollars allegedly hidden illegally on the island by Tommy Suharto, the youngest son of former president Suharto.

Jakarta’s action is an intervention granted by the Channel Island’s royal court in a case where Garnet Investment, incorporated in the British Virgin islands and owned by Tommy Suharto, is suing a branch of BNP Paribas for refusing to release at least $45.6 million and perhaps as much as $90 million from its account.
The court also approved Jakarta’s bid to become a third party in the case, Marty Natalegawa, Indonesia’s ambassador to Britain, told the Financial Times.

The action by the bank and the Indonesian government is based on concerns that the money was obtained corruptly, Natalegawa said. Transparency International in 2004 put ex-president Suharto at the top of its list of 20th-century kleptocrats, estimating that he and his family amassed up to $35 billion during his 32-year rule.

Tommy, 44, was released from prison last October after serving five years of a 15-year sentence for ordering the murder of an Indonesian judge who had convicted him of corruption in connection with a land-scam case.

During his father’s rule, Tommy became one of the most powerful businessmen in the country amid constant whispers over how he – and his siblings – were handed many lucrative contracts and businesses to run. In Tommy’s case those included a now defunct clove monopoly and the company developing the Timor national car.

Natalegawa said the government believed the money in the account “is beneficially owned by the Republic of Indonesia” because “it was obtained by corrupt use of power” during the Suharto era.

Jakarta’s lawyers presented some evidence to support their government’s affidavit. “We’re still building our case” the ambassador said. “We will present more evidence when the full trial starts on March 8.”

Salman Maryadi, a spokesman for Indonesia’s attorney general, said on Monday the corruption issue was secondary. “The best result would be that the court recognizes Tommy’s outstanding obligations and orders the money there be used to pay them,” he said. “Whether the money was obtained corruptly can be dealt with later.”

Natalegawa said that while $45 million was the most commonly quoted figure for the sum in the account, initial data put the balance at more than $90 million. “We still looking at this discrepancy,” he said.

Maryadi said Indonesia was keen to seize the $45 million in the Guernsey account opened in the name of Garnet Investment because the authorities were not aware of any other assets. “He is reportedly doing business here but we cannot prove that it is his money,” he said.

According to Transparency International’s Indonesia branch, Garnet deposited money with BNP Paribas in Guernsey on 22 July 1998, weeks after the fall of Suharto in May.

Four years later, in October 2002, Garnet asked to transfer $45.6 million, a request the bank refused. Three weeks after that Garnet tried to transfer £47,500 and 7,960 Euros to Peter Amy, a Garnet employee, according to Transparency International. The bank also rejected the request.

Todung Mulya Lubis, the head of Transparency International Indonesia, said BNP Paribas must have had good grounds to refuse the transfer requests.

Suharto Civil Lawsuit Ready

Indonesian state prosecutors plan to file a civil suit against former president Suharto in the coming days over the alleged misuse of charitable funds, Attorney General Abdul Rahman Saleh said on Thursday (25/1/07).

Suharto, 85, has so far escaped trial over allegations that he amassed billions of dollars in state assets during the three decades he ruled Indonesia, including through foundations he ran.

Saleh said they would file a lawsuit over the alleged mismanagement of one of seven charitable foundations set up and chaired by the former leader. “It will be (filed) at the end of January but there are still a few details that are not yet completed,” Saleh told journalists.

“The first step will be the Supersemar, but that is not the last one, we continue to study the cases and there are still six others (foundations).”

The Supersemar foundation, founded by Suharto in 1974, collected donations from businessmen and other donors to provide scholarships for students. Almost 800,000 scholarships have been awarded by the foundation but, as a private foundation, its management of its fund has never been made public.

Due to ill health, Suharto has never taken the stand for corruption charges against him. The charges accused him of misusing more than $500 million from charitable foundations --
separate to the billions in state assets he is also alleged by critics to have siphoned off.

Last May, prosecutors dropped a corruption case against Suharto after an appeal court overruled a lower court's order to reopen the proceedings.

REGIONS

Adam Air Black Box Found

The government stopped its efforts to search for the missing Adam Air plane on Saturday (27/1/07) following the finding of the jetliner's black box signal by the USS Mary Sears.

However, the retrieval of the black box and the main body of the missing jetliner will be extremely difficult as they are located on the sea bed at a depth of around 2,000 meters, The Jakarta Post reported.

Head of the search and rescue team, First Marshall Eddy Suyanto said the decision was normal as the black box was the main target of the search operation.

"The black box and debris of the aircraft have been found. Therefore, our job is terminated starting today. This command post will be closed and all personnel will be returned to their respective institutions," Suyanto told reporters at Hasanuddin Airbase in Makassar, South Sulawesi.

On Thursday, the Mary Sears captured the signals from the black boxes of the jetliner, using its sophisticated Towed Pinger Locator. The radar indicated that the flight data recorder (FDR) is located 1,800 meters below the sea, while the cockpit voice recorder (CVR) is 2,000 meters down.

The chief investigator of the crash, Frans Wenas, said the plane's black box could possibly be retrieved by a Remote Operated Underwater Vehicle (RoV), which is equipped with a camera.

"Tomorrow we will meet with technology ministry officials to discuss the possibility of using RoV," he told Reuters, adding that using the device would cost a lot of money, possibly millions of dollars.

Indonesia does not have the technology to recover them, and would have to request help from a country such as the United States, Setio Rahardjo, chairman of the National Commission on Transport Safety, told Agence France-Presse.

The 17-year-old plane, with 102 people on board, was heading from Surabaya in East Java to Manado in North Sulawesi when it vanished in bad weather on January 1. The plane made no distress call, although the pilot had reported concerns over crosswinds.

Indonesia Free of Polio Again: WHO

A resurgence of polio has been eradicated in Indonesia following five nationwide rounds of immunizations against the crippling disease, a World Health Organization official said Tuesday (23/1/07).

"All indicators suggest that we have been successful in eradicating polio", WHO external relations officer Thomas Moran told Agence France-Presse.

Moran said the crippling disease was brought to an end thanks to the immunization of 24 million children. The last case was reported in February 2006, so enough time had passed to make this assessment, he explained.

A total of 305 cases of infant polio have been found since the disease resurfaced in Indonesia in March 2005, a decade after it was believed to have been first eradicated. The waterborne polio virus attacks, withers children's limbs and can be fatal.

Over 9,000 Islands to be Named

The government will give individual names to each of the thousands of tiny islands in the country that remain nameless, Antara reported on Saturday (27/1/07).

Home affairs official Soadjuangon Situmorang told the state news agency that the government had formed a national team to name 9,500 islands by the end of this year.

The team will be led by President Susilo Bambang Yudhoyono and will include the defense and foreign ministers as the government hopes to improve security and territorial claims through the naming operation.

In total, Indonesia consists of 17,540 islands, which in total covers 1.9 million square kilometers.

ECONOMY
Indonesia Ends CGI Program

Indonesia is to end the Consultative Group on Indonesia (CGI) donor group process and switch to bilateral talks with major lenders at the same time that it moves to generate more cash from domestic sources.

"Indonesia no longer needs the CGI," President Susilo Bambang Yudhoyono said Wednesday (24/1/07).

The CGI, chaired by the World Bank and composed of Indonesia's main Western donors, last year pledged $5.4 billion in fresh loans and grants to the country.

"I deem it necessary to end the format which we know as the CGI forum... in this year of 2007, I declare that there is no longer a need for the existence of the CGI forum as before," Yudhoyono told journalists after receiving visiting International Monetary Fund (IMF) managing director Rodrigo Rato, Agence France-Presse reported.

The World Bank welcomed the decision, saying the country had built a strong economy. "Indonesia has skillfully built a strong economy, and is no longer dependent on donor funding," World Bank country director for Indonesia Andrew Steer said in a statement Thursday.

"The old CGI model -- whereby the government presented a financing gap, and donors pledged funds to fill it -- is no longer relevant to a strong country like Indonesia," Steer said, according to Agence France-Presse.

Indonesia would "continue to benefit from the support from its development partners, consistent with the government's development priorities," Steer said.

The Asian Development Bank and Japan also backed the move, according to Coordinating Minister for Economic Affairs Boediono.

"I have met with the three. In principle, they have no objection. We hope other members will also support (this)," Boediono told a press briefing.

The move to end the CGI followed an announcement by the World Bank Tuesday that the ratio of debt to GDP in 2006 declined to 35% from 47% a year earlier.

The government is moving to sell treasury bills this year to contribute to its financing sources and said last week it expected to name primary dealers for the bonds by the end of February.

Apart from introducing 12-month treasury bills, the government will also issue more retail bonds to further widen the bond market's investor base.

Meanwhile Bank Indonesia deputy governor Aslim Tadjuddin said Friday there will be room to lower the key interest rate if January inflation is lower than that of December, as the Central Bureau of Statistics has predicted.

There was positive news from the state-owned sector. Bank Rakyat Indonesia (BRI) hit its net profit target of Rp4.4 trillion for 2006, while Bank Mandiri estimated its 2006 net profit at between Rp1.8-2.4 trillion, up from Rp603 billion in 2005. PT Semen Gresik meanwhile announced an estimated 30% rise in net profit to Rp1.32 trillion.

**BUSINESS BRIEFS**

**MACRO ECONOMY**

**World Bank Welcomes CGI Move**

The World Bank has welcomed Indonesia's decision not to rely on CGI forum, saying the country had built a strong economy.

President Susilo Bambang Yudhoyono said Wednesday (24/1/07) he would wind up the Consultative Group on Indonesia (CGI), a group of the country's main donors.

"We welcome President Yudhoyono's announcement... that Indonesia would no longer rely on the CGI framework. Indonesia has skillfully built a strong economy, and is no longer dependent on donor funding," World Bank country director for Indonesia Andrew Steer, said in a statement Thursday, according to Agence France-Presse.

Indonesia has for the past two years chaired the CGI whose major donors are the World Bank, the Asian Development Bank and Japan.
At the annual CGI forum, the government usually presented its development plan to be discussed and sometimes criticized. "The old CGI model -- whereby the government presented a financing gap, and donors pledged funds to fill it -- is no longer relevant to a strong country like Indonesia," Steer said.

Coordinating Minister for the Economy Boediono said Indonesia would however continue bilateral dialogues with donor.

"We are also pleased that the government plans to continue to benefit from the support from its development partners, consistent with the government's development priorities," Steer said.

Yudhoyono's announcement came after Indonesia last year cleared its debt with the International Monetary Fund. The CGI last year pledged $5.4 billion in fresh loans and grants for Indonesia.

Govt. to Issue T-Bills in April, July, December

The Finance Department will issue treasury bills on April 3, July 10 and December 4, marking the debut of short-term treasury bills in the country, an official said Monday (22/1/07).

The department also plans to issue retail treasury bonds in March, June and November, head of the debt management unit, Rahmat Waluyanto, was quoted as saying by Dow Jones Newswires. He did not provide dates for the retail issues.

Analysts have described the t-bill issuance as a good strategy to provide a wider range of yield curves for the local debt market.

The government has already announced that proceeds from the pending t-bills and retail bond issuances will be used to finance the deficit in the state budget, which is expected to stand at 1.1% of gross domestic product in 2007.

Waluyanto said that the department has also tentatively scheduled Indonesia's first shariah bond issuance for September, pending approval of related legislation by lawmakers.

Shariah, or Islamic bonds, conform with the legal code of Islam, which prohibits interest payments. They are usually structured either as zero-coupon bonds and sold at a discount, or pay a profit rate in the form of regular payments derived from some underlying asset, such as rental income from property.

The department has been carefully formulating the necessary legal infrastructure for shariah bonds over the past two years.

BI Awards Rp124t Worth of SBIs

Bank Indonesia (BI) said it has awarded Rp124 trillion worth of one-month BI Certificates (SBI) at a fixed rate of 9.5% at its weekly auction, XFN-Asia reported on Wednesday (24/1/07). It said the auction absorbed 64.94% of total bids.

INVESTMENT

Interest in 'Palapa Ring' Project

Five companies have expressed interest in taking part in a $1.517-billion broadband fiber optic mega-project tender, an official said Tuesday (23/1/07).

"The five companies have already met requirements for participation in the tender on the Palapa Ring mega-project," Yusuf Iskandar, Director General of Post and Telecommunications, said on the sidelines of an Information Communication and Telecommunication Summit 2007, Antara reported.

The five firms are PT Aqela, PT Potensi Bumi Sakti, PT Telkom, PT Bakrie Telecom and PT Wireless Indonesia (WIN), a telecommunications subsidiary of the Sinar Mas Group.

The Palapa Ring would be a broadband fiber optic network which can carry high speed and high capacity data. The network would consist of seven fiber optic rings connecting Sumatra, Java, Kalimantan, Nusa Tenggara, Sulawesi, Maluku and Papua as well as eight back hauls.

"The network project is aimed at developing the telecommunication sector, encouraging economic growth and reducing the digital gap," Iskandar said.

In view of the huge amount of investment involved, the government would give the five companies a chance to set up a consortium, he said.
"The five firms have generally agreed to form a consortium and none of them has said it is ready to finance the mega-project by itself," he said.

**Saudi Group Plans to Invest $2b**

Saudi Arabian conglomerate the Savola Group plans to invest $2 billion in a number of business areas in Indonesia.

The group will team up with local partners to do business in the food and beverage industry, retail business, agribusiness and property sector, an executive of the Indonesian Chamber of Commerce and Industry (Kadin), Rudi Rusli, said, adding that the group plans to open hypermarkets in the country.

The company management has also met with prospective local partners, he said, according to Antara.

**Novartis to Set Up Research Facility**

Swiss pharmaceutical producer Novartis AG (NVS) said Thursday (25/1/07) it will open a new clinical research facility in Indonesia to conduct research on tuberculosis, dengue fever and malaria, the company said in a statement.

The new collaboration involves the company’s Singapore-based operation, the Eijkman Institute in Jakarta and the Hasanuddin University Clinical Research Institute in Makassar.

The three organizations will create a joint research initiative that will recruit top scientists from Indonesia and also provide Singapore-based researchers direct access to hospitals and patients suffering from the diseases in a "real-life" context.

Offices of the new laboratory will be located at the Eijkman Institute in Jakarta and at the Dr. Wahidin Sudirohusodo Hospital in Makassar.

**STATE CONCERNS**

**India Asked Not to Discriminate Against CPO**

Industry Minister Fahmi Idris has asked the Indian government not to discriminate against Indonesian crude palm oil (CPO) in its import duty policy as it could disadvantage Indonesia’s national CPO industry.

Idris said recently that India is imposing a higher import duty rate on Indonesian CPO than on CPO from Malaysia, which is Indonesia’s main competitor in the international CPO market.

"I have written a letter to the Indian government, via the Indian Ambassador to Indonesia, asking India to apply the same import duty rate (as applied to Malaysian CPO). However, they have not informed us about when they will apply the same rate to Indonesian CPO," he was quoted as saying by Antara.

**SOEs**

**Answers Sought on PGN Share-Price Debacle**

Finance Minister Sri Mulyani Indrawati has instructed the Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK) to speed up the ongoing probe into the sudden collapse in the price of shares of state-owned gas firm, PT PGN.

"The finance minister wants the investigation into the case to be wrapped up quickly. The case is very sensitive and could damage the market," Jakarta Stock Exchange president director, Erry Firmansyah, said on January 19, according to The Jakarta Post.

No specific timetable has been set for the investigation, but Firmansyah said he hoped it would take less than two weeks.

PGN’s shares fell 23.3% at one point earlier this month, prompting the regulator to temporarily suspend trading in the company’s shares.

PGN has said the unanticipated slump in its shares was due to the announcement of a six-month delay in the commencement of a gas pipeline project worth $1.1 billion. Because of the delay, the company had to revise down its gas output target for this year to 555 million standard cubic ft per day (mmscfd) from 787 mmscfd. The pipeline has the capacity to transport 1,000 mmscfd, and links South Sumatra and West Java.
The suspension of trading in PGN shares on the Jakarta Stock Exchange has been lifted, but an investigation is underway to find out what really happened.

Bapepam said that besides PGN, it would also question 12 local and foreign-based brokers reportedly involved in the case.

Firmansyah said the JSX is ready to submit the relevant information to Bapepam, but stressed that it could not become involved in the investigation.

Garuda Strategic Invest by End-H1

State-owned flag carrier, PT Garuda Indonesia, will seal a strategic investment stake deal by the end of the first half of 2007, the firm's chief executive officer, Emirsyah Satar, said.

A strategic investor must be in place by the end of June so that Garuda can proceed with restructuring its massive $749 million debt, Satar told Dow Jones Newswires in a recent interview.

"The government has decided that we'll have a strategic partner and that's the priority (for 2007)," he said. "My target is there has to be (debt restructuring) in the second semester (of 2007) so there should be a very clear direction who is the (investor)."

The government said earlier this month that as many as six international companies have expressed interest in buying up to a 49% stake in Garuda.

Satar said the government will allow private firms to take up to a 49% stake in Garuda, but the final decision on the size and value of a strategic investment has not been decided. He however suggested that the government and Garuda will welcome an investor willing and able to pay down a significant portion of the firm's massive debt burden. "If you look at it as a reference, we have a debt close to $800 million and we really have to reduce that," he said.

Texas Pacific Group has "expressed interest" in a Garuda stake, but no prospective investors have yet launched a formal due diligence of the Indonesian carrier, Satar said. "Airline or non-airline, definitely (a prospective investor) should be someone who knows the airline business."

He said a strategic investor would provide needed funds to pay down Garuda's debt burden as well as an injection of market savvy to upgrade the carrier's technological edge and market competitiveness.

"Garuda has always been in a monopoly position... (so) a strategic investor coming in, looking at things differently, will be very good for Garuda employees," Satar said, adding that Garuda and the Indonesian government will welcome any prospective investors "... provided they bring this value-added."

PRIVATE SECTOR

Retailers Expect 17% Sales Growth

Major retailers expect sales growth of about 17% this year, slightly lower than the 20% recorded in 2006.

"We have calculated all the figures gathered from our members and have come up with a sales growth target of 17% from about Rp50.8 trillion ($5.64 billion) last year," Association of Indonesian Retailers (Aprindo) chairman, Handaka Santosa, said on Thursday (25/1/07).

Although 2007's projected sales growth will likely be lower than last year's, Santosa said that the sales target is still a very healthy one for the retail industry. "Last year, the retail sector contributed 20% to the country's GDP," he was quoted as saying by The Jakarta Post.

"Last year, we targeted 20% growth from about Rp42 trillion in 2005, and we almost met the target, being just little below 20%. So, the 17% growth target for this year is quite realistic," he said.

Trade Minister Mari Pangestu meanwhile said that the government is in the process of drawing up legislation to create healthy competition among retailers, such as hypermarkets, supermarkets, minimarts and traditional markets.

"We have been preparing a presidential decree on modern markets for one and a half years now. It's not finished yet but I am optimistic that we will finalize it this March," she said.

Hutchison Set to Start Mobile Services
Hutchison Telecommunications International, which has operations from Hong Kong to Ghana, says it is on track to start offering mobile telephone services in Indonesia this quarter.

The company also clarified its commitment to its Indonesian mobile business with planned capital expenditure of $750 million for the three years up to 2008, a Hutchison Telecom spokesman was quoted as saying by The South China Morning Post.

Hutchison CP Telecommunications, the Indonesian unit of Hutchison Telecom, will invest in wireless towers in Sumatra, company director Sidarta Sidik said, confirming a report in the Koran Tempo newspaper.

"We have a presence in most of the big cities in Java, and now we are going to move toward Sumatra," he said. "As a new player, the most important thing is to get the first one million subscribers as soon as possible. Things will be easier after that." He declined to give a time frame.

Koran Tempo, citing Sidik, reported Hutchison CP Telecom plans to spend $1 billion to build telephone towers in Indonesia this year.

"Our capital expenditure for Indonesian operations for three years since 2006 has not changed and remains at $750 million in total," Hutchison Telecom spokesman, Micky Shiu, said.

2007 Vehicle Sales Seen Up 25%

The country's domestic vehicle sales are likely to rise 25% this year, marking a recovery in the sector hit by high interest rates and weak purchasing power, a trade body said on Thursday (25/1/07).

High fuel prices and interest rates sent vehicle sales down 40% last year to 318,883 units after a historic high of 533,910 in the previous year.

Sales have been recovering in recent months after the central bank started cutting the benchmark interest rate and Bambang Trisulo, chairman of the Automotive Industry Association (Gaikindo), told Reuters domestic sales next year are likely to return close to 2005 levels if interest rates continue to fall.

"If the 8.5% (interest) rate can be achieved in the first half... it could exceed 400,000 units (in 2007)," Trisulo said in an interview, referring to the central bank's reference money market rate, known as the BI rate. "We will see how things work in the first quarter, if the numbers are encouraging, we might revise up our forecast."

Trisulo also said exports of completely built vehicles this year are likely to grow 61% to about 50,000 units.

BANKS

Mandiri Eyes 25% Profit Growth in 2007

Indonesia's largest lender, Bank Mandiri, expects its net profit to increase up to 25% this year as it seeks to cut its non-performing loan (NPL) ratio, a company director said Wednesday (24/1/07).

Bank Mandiri has estimated its 2006 net profit to be between Rp1.8 trillion and Rp2.4 trillion, up from Rp603 billion in 2005.

"We expect this year's net profit would be around Rp2.5 trillion to Rp3 trillion. This is in line with a lower non-performing loan ratio target for this year of under 5%," risk management director, Sentot Sentausa, was quoted as saying by Reuters.

Sentausa said he expects loans to grow 18.5% this year from last year's outstanding loans of Rp109.392 trillion ($12.04 billion).

The bank's net NPL in 2006 was at 7.88% compared to 16% the previous year, due to an agreement with some of its major bad debtors to settle their debt.

Bank Mandiri vice president director Wayan Mertayasa, said the lender is committed to reducing the gross NPL to less than 10% this year from 17.86% in 2006.

In a statement issued early last week, Bank Mandiri said the debt from its top 30 problematic debtors had declined to Rp9.6 trillion from Rp16.1 trillion a year ago, reported Dow Jones Newswires.
Meanwhile, Bank Mandiri said it plans to open a branch in China to help facilitate bilateral trade, which is expected to expand to $20 billion this year.

The branch will serve both Indonesian and Chinese businessmen, managing director Thomas Ariffin was quoted as saying by Antara. He said the bilateral trade has great potential to expand, and that the bank already has a representative office in Shanghai.

**BNI Sees 2006 Net Profit Up a Third**

The country’s third largest lender, Bank Negara Indonesia (BNI), expects its 2006 net profit to rise about a third to Rp1.9 trillion ($209.4 million) from Rp1.4 trillion in 2005, its president director said on Monday (22/1/07).

The state-owned bank expects loans to grow 20% this year from an estimated Rp66.7 trillion last year, Sigit Pramono said, according to Reuters.

Pramono also said a secondary offering of BNI's shares is expected by the end of June, during which the government might offer between 30% and 40% of the bank. “About 15% to 20% of which would be used to strengthen our capital base, I cannot say how much money we expect to raise right now,” he said.

Meanwhile, BNI is leading a syndicate of three banks that will provide Rp1.5 trillion to finance the construction of a toll road between Surabaya and Mojokerto in East Java.

BNI corporate director, Acmad Baiquni, said BNI would provide 51% of the loan and Bank Rakyat Indonesia (BRI) and Bukopin would put up the rest, Antara reported on Wednesday.

The bank loan will cover 65% of the total cost of about Rp2.5 trillion of the project, which is expected to be completed in 2009, Baiquni added. Earlier, he said the loan, which will mature in 10 years, will carry an annual interest of 14% to 15%.

**BRI 2006 Net Up 15% to Rp4.4t - CEO**

Bank Rakyat Indonesia (BRI) said its unaudited 2006 net profit rose 15% on year, mostly because of lower costs of funds stemming from a decrease in interest rates, the chief executive of the country’s fourth largest bank by assets said Wednesday (24/1/07).

"As of December 31, 2006, our net profit was Rp4.4 trillion, compared with Rp3.81 trillion a year earlier,” Sofyan Basir was quoted as saying by Dow Jones Newswires.

He said falling interest rates had caused the bank's net interest income to remain flat at about Rp12 trillion, but it also reduced the costs of funds. At the end of December, the bank's total outstanding loan portfolio stood at Rp90 trillion, up 19% from Rp75.5 trillion a year earlier.

BRI is expected to announce its audited 2006 earnings late next month.

**Two Banks to Merge into Rabobank**

The management of Rabobank International Indonesia (RII) has reported to Bank Indonesia (BI) its plan to absorb Hagabank and Bank Hagakita.

The Dutch bank, which recently acquired the two banks for Rp800 billion ($88 million), plans to complete the merger early next year, BI Deputy Governor Siti Fadjrijah said, according to Antara. She said the central bank has approved the merger plan.

Based on their financial reports in 2006, the three banks had assets valued at Rp8.12 trillion, with capital totaling Rp796.5 billion, and a capital adequacy ratio of 13%.

**Bank Muamalat Earns Rp207b in Profit**

The country's first shariah bank, Bank Muamalat Indonesia, reported Rp207.07 billion ($23 million) in pre-tax profit in 2006, up from Rp156.25 billion the previous year.

Last year, the Islamic bank disbursed Rp6.58 trillion in shariah financing, up from Rp5.88 trillion in 2005, Antara reported on Tuesday (23/1/07).

The bank also recorded an increase in assets to Rp8.45 trillion from Rp7.42 trillion, and in deposits to Rp6.83 trillion from Rp5.74 trillion.

Bank director M Hidayat however said a decline was recorded in its financing-to-deposit ratio to 95% in 2006 from 110% in 2005 due to a decline in the demand for loans from the real sector.
Islamic banks operate in line with the shariah law, under which a bank pays or receives no interest, and profit is to be shared.

**POWER**

Kideco to Supply Coal to Tanjung Kasam

Korean company PT Kideco Jaya Agung has agreed to supply low-calorie sub-bituminous coal from its mine in Kalimantan to state power firm PT PLN's planned $96.99 million steam power plant in Tanjung Kasam, Batam, *The Jakarta Post* reported on Monday (22/1/07).

The power project will have two generators, each with a designed total generating capacity of 55 MW. The first generator is slated to start operating in March 2009 and the second, three months later.

PLN-Batam operates a number of power plants with a total capacity of 320 MW, about 31% more than its capacity in 2005. PLN-Batam president director Ery Ifyandri said that, based on the agreement, Kideco would supply 360,000 tons of coal containing 4,700-4,800 kilocalories per kg per annum for 15 years.

PT Tanjung Kasam (TJK) Power, operator of the project, and PT Solusi Energi System Consult also signed an agreement on engineering and construction supervision, while Solusi Energi Sistem Consult and PPLS Management Sendirian Bhd, a subsidiary of Sarawak Electricity Supply Company Bhd (SESCO) of Malaysia, signed an agreement on technical cooperation.

TJK Power president director, Binarto Bakti Mahardjana, said the cooperation with Solusi Energi Sistem Consult is to ensure that the construction of the two power units would be finished on time.

The Mines and Energy Department's Director General for Electricity and Energy, J Purwono, said the construction schedule has to be tight to cope with the annual 15% rise in electricity demand in Batam. "We estimate that we will need an additional installed capacity of between 260 MW and 280 MW by 2009," Ifyandri said.

PLN-Batam further plans to build two other coal-fired power plants with a total investment of about $100 million, in line with its plan to boost coal usage in the power sector. The two new power plants will be located in Bintan and have an installed capacity of 12 MW each.

**Malaysian AE Models' Unit Wins Contract**

Malaysian AE Models Holdings Bhd said its 59.45%-owned unit, PT AE Automation Indonesia, has won a power plant contract worth $8.1 million, XFN-Asia reported on Thursday (25/1/07).

AE Automation will design and construct an 8-MW coal-fired power station in East Kalimantan to be delivered by end-May 2008, it said.

**OIL AND GAS**

Pertamina Good Governance Drive

State oil firm PT Pertamina has embarked on an internal reform program under new leadership and has reaped billions of dollars in investments to double its oil and gas output.

Speaking to the media on Thursday (25/1/07), Pertamina president Ari H Soemarno said he had launched the internal transformation through 27 "breakthrough projects", including reducing the rampant leakage of fuels during transportation, increasing efficiency at the company's many ports and ridding its fuel depots of white-collar thugs and thieves.

Within their first three months, he said, these projects had brought in an additional $15 million.

The company has also worked to revamp its gas stations to better serve customers. Pertamina will also work with multinational oil and gas companies to enhance its downstream businesses; for example, it will partner with SK Corp to build a lubrication oil plant in Dumai, Riau and team up with Shell in the aviation fuel sector.

Soemarno said the company plans to more than triple its investment in the downstream sector to Rp3.7 trillion ($410 million) this year from Rp960 billion last year and Rp1.3 trillion in 2005.

He added that Pertamina would deepen its involvement in the upstream sector as well, which he said promised bigger returns. "The upstream is our value creator, while the downstream is our value enhancer. So we have to be strong in both," he said.
In the upstream sector, Soemarno said Pertamina would invest a hefty Rp10.1 trillion this year, a jump from Rp3.5 trillion last year and Rp3.9 trillion in 2005. Pertamina aims to double its oil and gas output from its current level of 235,000 barrels of oil equivalent per day within the next four years.

"So our total investment plan for this year would be about Rp14 trillion ($1.5 billion). That's still small, compared to our friends overseas. Petronas, for example, invests about $5 billion a year," Soemarno said.

He noted that most of the money for investment this year would be taken from retained earnings. Last year, Pertamina booked a profit of Rp21 trillion. About Rp12 trillion of that will be paid as shareholder dividends to the government, and the remainder retained.

This year, Pertamina, with total assets of about Rp360 trillion, aims to book a net profit of Rp23 trillion.

**MINING**

Regulations Issued on Tin Exports

Indonesia has issued regulations limiting refined tin exports in an effort to curb unchecked exports of the commodity, widely used in the electronics industry, a Trade Department official said on Tuesday (23/1/07).

The government will only allow exports of refined tin by smelters that have a mining permit or if they team up with mining permit holders, the department’s Director General of International Trade, Diah Maulida, said.

"We have banned exports of tin ore since 2002, so exports are only allowed for refined tin, which so far have no regulation to control them," Maulida was quoted as saying by Reuters. "After seeing the fact in the (tin-producing) area, exports of refined tin have led to uncontrolled tin mining which has caused environmental problems. So, we need to regulate this."

She said exporters will only be allowed to sell refined tin with a minimum purity of 99.85% after they have provided proof of paying a royalty to the government.

Bangka island is home to state-run PT Timah, the world's biggest integrated tin miner, and PT Koba Tin, which is 25%-owned by Timah and the rest by Malaysia Smelting Corp Bhd.

In October, dozens of small smelters ceased business after the police closed three for operating without a proper mining permit, triggering violent protests by miners concerned about their livelihood. The Bangka-Belitung provincial government has identified eight smelters, out of 35 small smelters, that may be allowed to reopen as they meet proper requirements for tin smelting.

Meanwhile, police in Bangka-Belitung province are investigating Koba Tin in connection with sourcing illegal tin ore and operating outside its mining area, the police chief said on Wednesday (24/1/07).

Bangka-Belitung Police chief Imam Sudjarwo told Reuters police had received reports Koba Tin has sourced tin ore from local miners that worked outside the firm's mining area. "It means Koba Tin has violated the mining law by operating outside its concession and violated the criminal law for fencing illegal tin ore," Sudjarwo said.

He said police had seized 500 tons of refined tin owned by Koba Tin, but the company was still allowed to run its smelter.

Malaysian Smelting denied in a statement to the Kuala Lumpur Stock Exchange its Indonesian unit had sourced illegal tin ore. “Koba Tin collects tin concentrates from small-scale miners operating within its Contract of Work (CoW) mining leases based on annual quantity approved by the authorities,” the statement said, adding the ore was documented to ensure its origin.

It said it had suspended ore collection from local miners during the probe, but smelting operations were running as usual to process tin concentrates from its own dredging and gravel pump operations.

The company was also negotiating the early release of 500 tons of refined tin due for shipment which was seized by the police for verification purpose, it said.

London Metal Exchange three-month tin extended its recent gains to hit a fresh record high of $12,500 a metric ton Wednesday on speculative buying amid ongoing supply concerns, analysts said, according to Dow Jones Newswires. Tin has climbed roughly 21% to $12,500/ton
since hitting a low for 2007 of $9,849/ton on January 9.

**Ban on Sand Exports to Singapore**

Indonesia has banned all further sand exports, citing environmental concerns and the need to protect its borders, the Singapore government said in a statement on Wednesday (24/1/07).

Land-scarce Singapore, with a total area of just 700 sq km, is one of the biggest importers of Indonesian sand, used for land reclamation and currently in strong demand in a construction industry that is recovering after years in the doldrums.

Indonesia's sand trade with Singapore, worth hundreds of millions of dollars a year, has been criticized by environmentalists who said sand mining had led to erosion and even the disappearance of some islands. This, in turn, has raised concerns that sand mining could alter Indonesia's sea borders.

The ban took effect on Tuesday (23/1/07), but exporters have been given until February 5 to honor existing contracts.

The latest ban applies to the export of land sand, which is used to produce concrete for building construction, a ministry spokeswoman said.