

## Trade and Investment News, 24 August 2009

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### NATIONAL

#### Air Force pilots to fly Garuda jets

The nation's largest carrier, PT Garuda Indonesia, on Friday signed an agreement with the Air Force that would help meet a shortfall in pilots and ground staff as the national flag carrier expands its fleet, The Jakarta Globe reported.

The European Union in July lifted a two-year-old ban on Garuda and three other Indonesian airlines after "significant improvements" were made to safety standards.

Shortly afterward, Garuda outlined an aggressive expansion plan dubbed "Quantum Leap" that would more than double the size of its fleet over the next five years, from 56 planes to 116, some funded with a loan from the US.

"We need at least another 100 pilots to fly our aircraft," said Garuda's president director, Emirsyah Satar.

Indonesia is also facing a shortage of aviation engineers, just one of the many challenges the country faces in improving its checkered air safety record.

Under the Memorandum of Understanding signed on Friday, the Air Force will provide pilots "on loan", as well as provide training for Garuda's pilots and aviation engineers.

However, the agreement is still in its infancy and many details have yet to be finalized, including restrictions on military employees, who are not currently allowed to work in civilian positions, said Satar.

"We are ready to help Garuda and we're currently waiting for the regulation to be issued by the Defense Ministry," said Air Force Chief Air Marshal Subandrio.

## POLITICS

### KPU to follow Constitutional Court ruling

After weeks of confusion, the General Election Commission (KPU) decided on a method of allocating legislative seats based on the results of the April 9 elections, with the winners expected to be announced on Monday, The Jakarta Globe reported.

The KPU decided on Friday to implement a Constitutional Court ruling on seat allocations, an issue that had been muddled by a contradictory decision from the Supreme Court issued in July.

KPU Chairman Abdul Hafiz Anshary said the decision was reached after consulting with Constitutional Court Judge Abdul Mukthie Fajar.

The KPU's decision also means that the announcement of who would take their oaths as new members of the House of Representatives in October was postponed a second time. It was originally scheduled for last Tuesday, and again for Friday.

"The most important thing is that we have tried to correctly implement the ruling of the Constitutional Court," Anshary said.

Members of the KPU had been split over which candidates would be allocated seats in the third phase of vote counting.

Some KPU officials backed candidates who ran in the district where their party gained the most seats while others

wanted the candidate with the most votes in the province to be allocated the seat.

Hadar Gumay, chairman of the Center of Electoral Reform (Cetro), said that the commission's decision would not change the number of seats gained by a party, but that some candidates would be affected.

"Fifteen candidates will lose their seats and be replaced by other candidates," he said.

KPU member Andi Nurpati said that there would also be another announcement concerning results for areas where court-ordered re-polls or vote re-capitulations had occurred.

DPD calls for constitutional amendments

The Regional Representatives Council (DPD) is demanding a fifth amendment to the Constitution to give equal authority for the council in guarding the country's democratic system, The Jakarta Globe reported.

The DPD has been struggling for years for a stronger legal basis putting it on an equal footing with the House of Representatives (DPR).

"The DPD supports efforts for the fifth amendment, which is expected to finalize several unsolved issues," said DPD speaker Ginandjar Kartasasmita, a former New Order stalwart and Golkar heavyweight.

The DPD so far can only propose its initiatives to the DPR, but it is not allowed to join the decision-making process.

Kartasasmita said that he hoped the DPR and DPD could "join hands" in the future.

President Susilo Bambang Yudhoyono said last week that the Constitution should not be frequently amended.

## TERRORISM

TNI counter-terror role not a worry: SBY

President Susilo Bambang Yudhoyono hit back at critics of his decision to give the Armed Forces (TNI) an increased role in fighting terrorism, saying the move was not counter to the country's principles of democracy, The Jakarta Globe reported.

Although the National Police by law have primary responsibility for counter-terrorism operations, Yudhoyono said the 2004 Armed Forces Law stipulated that the military could also take part.

Yudhoyono said in peacetime, the TNI was required to fight separatist movements, armed rebellions and terrorism.

He said that while the National Police would still head counter-terrorism efforts, the TNI needed to be involved to handle certain unique challenges posed by the evolving threat.

Following suicide bombings at the JW Marriott and Ritz-Carlton hotels in Jakarta last month, Yudhoyono ordered the military to deploy 40,000 personnel across the country to monitor village-level activity.

The TNI has also announced plans to establish counter-terrorism desks at all of its regional command centers.

On Thursday, National Police chief Gen. Bambang Hendarso Danuri said a major joint anti-terrorism drill will be held in October, reported Detikcom.

In the last joint-terrorism drill in Jakarta in December, police and the TNI held simulated coordinated attacks and hostage-takings at hotels, airports, resort areas and the strategic Malacca Strait, involving nearly 7,000 personnel.

W. Java: Alleged terrorist safe house reported torched

A suspected terrorist safe house in Salak, Bogor, West Java was torched by residents on Thursday night, reported Okezone.

A resident said the home was suspected to be used by terrorists trained by Noordin M. Top.

“Around 10 different people were using the home and they had similar appearances to terrorists recently arrested in Cilacap and Temanggung in Central Java,” he said.

Residents said the occupants have since fled the area. Police have not issued any statements over the incident.

On Thursday, West Java Governor Ahmad Heryawan quoted an intelligence source as saying West Java, Jakarta and Banten are considered “safe havens” for terrorists, Tempo reported.

West Java Armed Forces official Maj. Gen. Rasyid Qurnuen Aquari urged the Army to increase surveillance of Bogor and Kuningan in West Java due to the areas’ long history of Islamist terrorism.

Earlier this month, police found a cache of bomb-making materials in a rented warehouse in Bogor as part of investigations into the July 17 suicide bombings in Jakarta.

## SECURITY

### M-16 ammunition seized at OPM 'HQ': Papua Police

Dozens of rounds of ammunition, machetes, arrows and documents bearing the separatist Morning Star symbol were confiscated during a raid at a house in Abe Gunung, Papua, police said, Kompas reported.

Jayapura Police chief Adj. Sr. Comm. Robert Djoenso said the ammunition was for M-16 automatic rifles and the house is suspected to be the headquarters of the Free Papua Organization (OPM) in the area.

Djoenso said the raid was conducted to apprehend Demus Wenda, the secretary of the West Papua National Committee, who claimed responsibility for raising an outlawed Morning Star flag on Independence Day on August 17

Djoenso said even though police failed to arrest Wenda, it is believed the house was connected to the flag hoisting.

## LAW & ORDER

### KPK arrests former health minister

Former Health Minister Ahmad Sujudi spent the weekend in jail after he was arrested on Friday by the Corruption Eradication Commission (KPK) over his alleged role in a multimillion-dollar graft case in 2003 that investigators say could have resulted in the deaths of hospital patients.

The 68-year-old former minister, who served under former President Abdurrahman Wahid, was declared a suspect in May, but was not detained, after he admitted to accepting \$70,000 in kickbacks in 2003 from PT Kimia Farma Trading and PT Rifa Jaya Mulia in return for providing them with government contracts.

The companies allegedly inflated the budget of the contracts to supply medical equipment to remote areas across the country by more than Rp71 billion.

Bibit Samad Riyanto, deputy for graft investigations at the KPK, said that Sujudi and executives from the two companies had manipulated the per-unit prices of the equipment by up to 5,000% above retail prices.

"This level of corruption blocked access to health care and potentially killed innocent patients," Riyanto said.

Kimia Farma Trading president director Gunawan Pranoto and Rifa Jaya president director Rinaldi Yusuf were also detained.

Sujudi also said that the KPK would soon reveal the identity of a new graft suspect connected to the procurement process at the ministry during the 2006 avian flu outbreak.

"We have made (the suspect) our prime target, but it will be several days before we have all the documents ready," he said

He said that the KPK expected to uncover a substantial amount of price mark-ups that may have cost the state approximately Rp32 billion in the procurement of medicines and equipment in the bird flu outbreak.

The KPK is also investigating a similar budget-inflation case dating back to 2007, with total state losses valued at more than Rp4 billion.

KPK spokesman Johan Budi said that with so many procurement problems at the ministry, the KPK felt obligated to intervene in order to avoid further losses to the state.

## HEALTH

Diabetes threatens to overwhelm deficient health system

Increasing cases of diabetes, where the body can no longer regulate blood sugar levels on its own, is threatening to further strain the inadequate public health sector and its budget.

Diabetes is one of the fastest growing health risks in the developing world and is poised to hit Indonesia particularly hard.

According to research published in the Journal of American Medical Association in May, more than 60% of future diabetes patients will be in Asia.

The World Health Organization has estimated that Indonesia ranks fourth in terms of diabetes sufferers in the world, behind China, India and the US.

"In 2000, 8.4 million Indonesians suffered from diabetes and the figure is expected to increase to 21.3 million in 2030," said Professor Sidartawan Soegondo, a metabolic endocrine and diabetes consultant at University of Indonesia's medical faculty.

Fueling this trend is Indonesia's growing affluence, which has seen a wider percentage of the population able to engage in behaviors that contribute to the disease, such as smoking, drinking and eating more red meat.

These factors, plus increasingly sedentary lifestyles due to urbanization, have seen an increase in obesity in Indonesia, believed to be the main factor behind the condition.

In one example, the number of diabetes cases in Banyuwangi, East Java is increasing, with nearly 1,000 new cases identified since the beginning of the year, health officials said last week, Jawa Pos reported.

Agency official Juwana Sujuswa said diabetes patients have been increasing annually at an average rate of 15%.

## ECONOMY

### Major banks agree to lower deposit rates

Fourteen major banks have agreed to lower their maximum deposit rates effective immediately, Bank Indonesia (BI) deputy governor Budi Mulya said on Thursday, Reuters reported.

Mulya said the banks had agreed to lower the deposit rates to 150 basis points above the benchmark policy rate, which translates into 8%, and reduce them further to 50 basis points above the BI rate within the next three months.

This compares to previously when deposit rates could hit 10% for big institutional depositors.

"Starting Friday, it will be 150 basis points above BI rate. Then after three months, it will be 50 basis points above BI rate. This has been agreed by 14 major banks," Mulya told reporters.

"We hope foreign banks and other banks will follow," Mulya said without naming the banks.

Mulya said the central bank would offer repo facilities with three-month maturity but did not give an exact timeframe on when this could take effect.

The new repo facilities would help banks with short-term funds in case big depositors withdraw their funds from the banks.

The agreement marks the end of a long period in which both business and government have demanded lower rates from banks. For their part, banks have complained that the cost of money has made it impossible to do so, since large depositors have been in a position to demand rates higher than those advertised to ordinary customers.

Energy majors Mitsubishi from Japan and South Korea's Samsung are studying possible investment in the country this year, Asia Pulse reported.

Mitsubishi is carrying out a feasibility study of a coal gasification project valued at \$500 million in Bontang, East Kalimantan, while Samsung wants to team up with PT Trans Pacific Petrochemicals Indotama (TPPI) to build an aromatic plant in Tuban, East Java, where TPPI already has a petrochemical complex.

Agro and Chemical Director General Benny Wachyudi said the two investors showed serious interest in carrying out their plans.

The two companies, however, will need guarantee in supply of gas and electricity, Investor Daily said.

The government was considering a far larger project. An official from the National Development Planning Board (Bappenas) said on Thursday the government may offer contractors concessions in the areas around the proposed Rp100 trillion (\$10 billion) Sunda Strait Bridge linking Java and Sumatra to encourage more investors to the project, The Jakarta Globe reported.

"The internal rate of return alone is so low that it would not be profitable," said Dedi S Priatna, the deputy for infrastructure at Bappenas.

Priatna said that the concessions would likely be in sectors such as forestry or tourism. "It will have to be that way if it is to be profitable. We will conduct a series of seminars to assess the feasibility of the proposal," he said.

Private contractor PT Bangungraha Sejahtera Mulia, a subsidiary of Artha Graha Networks (AGN) has completed a "pre-feasibility" study on the bridge, the findings of which have been handed to the government. The government has also completed a number of studies, but these were confined to construction-related matters, Priana said.

The completion of the pre-feasibility study is the latest step in the planning process, which was kicked off by the signing of a memorandum of understanding in October 2007 between AGN and the Banten and Lampung provincial governments.

In addition to the findings of the pre-feasibility study, the provincial governments have submitted proposals for their inclusion in public-private partnerships to develop the project.

The government also moved to abolish thousands of taxes and levies under a new regional taxation law, President Susilo Bambang Yudhoyono said Wednesday, Dow Jones reported.

"In compliance with our common commitment to create a favorable investment climate in the regions, the government has abolished, is abolishing and will continue to abolish various regional levies which are inconsistent with regulations," Yudhoyono said in a speech to lawmakers.

He said the central government has recommended that over 5,000 proposed and existing regional regulations on taxes and levies be abolished, largely in the transportation, industry, trade and agriculture sectors.

## MACROECONOMY

2010 growth targeted at 5%: Minister

Indonesia's economy is forecast to expand by 5% next year and the government will allocate fiscal stimulus to achieve its growth target, Finance Minister Sri Mulyani Indrawati said Thursday, Dow Jones reported.

"This growth target is optimistic considering projected slower growth in the international economy, but it is achievable," Indrawati told members of House of Representatives' budget committee.

The 2010 budget is expected to contribute Rp91.9 trillion (\$9.19 billion) to the country's monetary balance to accelerate the economy's growth while preventing "excessive" inflation, Indrawati said.

She added that the 2010 budget would focus on boosting demand, with the government allocating Rp518.4 trillion for spending and Rp144.5 trillion for investment.

The 2010 budget bill is expected to be endorsed next month before new House members are inaugurated.

The government this year plans Rp73.3 trillion in stimulus spending, largely in the form of tax breaks for businesses.

She said infrastructure development, investment, exports and tourism among other sectors will drive growth next year.

Bank Indonesia forecasts the economy to grow 3.5% to 4.5% this year, compared to 6.1% in 2008.

Meanwhile, State Minister for National Development Planning Paskah Suzetta said on Thursday that the government lacked the funds to finance infrastructure projects across the country, The Jakarta Post reported

Suzetta said the government had only allocated Rp40 trillion (\$3.96 billion) for infrastructure projects next year, or 30% of the costs of all projects.

From 2010 to 2014, the government will need Rp1,429 trillion to improve infrastructure, he said.

"This amount of investment is needed to help our economy grow between 5% and 7%," Suzetta said.

CPI rise may be slower in August: BPS

Indonesia's inflation rate, which is likely to continue falling this month, may pick up in September due to seasonal factors, the chairman of the official Central Bureau of Statistics (BPS) said Thursday, Dow Jones reported.

"During the first three weeks of August, no price pressures have been evident. If this continues until the end of the month, inflation may be lower," Rusman Heriawan told reporters, without giving a specific forecast for the inflation rate.

Heriawan said prices are likely to rise at a quicker pace next month due to the Muslim fasting month of Ramadhan.

In July, the consumer price index (CPI) rose 0.45% on month and 2.71% on year - the slowest annual inflation in nine years.

Indonesia to get \$2.7B IMF facility: BI

The International Monetary Fund (IMF) will allocate special drawing rights (SDRs) worth an equivalent \$2.7 billion for Indonesia as part of its measures to strengthen global liquidity in 2009, Bank Indonesia (BI) said, Reuters reported.

"The allocation is for all member countries of the IMF and is part of global efforts to tackle the (current economic) crisis through the availability of global liquidity," BI deputy governor Hartadi Sarwono said in a statement.

The use of the facility is without conditions, BI said, and is different from an IMF loan facility extended to Indonesia to rescue the country during the Asian financial crisis of 1997-1998.

The IMF facility will increase Indonesia's foreign exchange reserves by 1.74 billion worth of SDRs equivalent to \$2.70 billion, he said.

Indonesia's foreign exchange reserves stood at \$57.4 billion in July.

The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies, and SDRs can be exchanged for freely usable currencies.

## INVESTMENT

Pelindo I inks \$500M port development project

State shipping company PT Pelabuhan Indonesia (Pelindo) I inked a joint commitment with private firms and local governments on Thursday on a port development program estimated to be worth \$500 million in total investment, The Jakarta Post reported.

Pelindo I finance director Suwono said that to support the development of the projects, the company had allocated Rp53.2 billion (\$5.32 million) solely for the procurement of supporting equipment.

The companies involved in signing the commitment agreement include state-owned oil and gas company PT Pertamina, shipping company Maersk Line, Regional Container Line (RCL), Langkat Regency of North Sumatera, Sabang Regency and the North Aceh Regency of Aceh and the Dumai Regency of Riau.

The program mainly involves expansion of existing ports in Aceh, Batam, North Sumatra and Riau with financing both from company internal cash and from Indonesia's development partners including the Islamic Development Bank (IDB) and the Japan Bank for International Cooperation (JBIC).

Bambang Eka Cahyana, a director of commercial and business development at Pelindo I, said the company had so far secured a loan worth \$87 million from IDB and expected to secure another from JBIC.

"The (total) \$500 million in funds will be used to finance projects in the next five years," he said.

The ports of Belawan and Batam are planned to be expanded so that they will be able to handle more containers with estimated costs of \$83 million and \$100 million respectively, Cahyana said.

The project in Riau, on the other hand, focuses on transforming the Dumai Port so that it will be an ideal hub for crude palm oil (CPO) distribution from Kalimantan and Sumatra. This project is estimated to need about \$125 million of investment funds.

Cahyana said government planned to make Dumai a CPO spot market hub with direct transactions between sellers and producers.

The remaining \$192 million, he said, would be spent on developing the Malayahati and Sabang ports in Aceh and the Perawang port in Riau.

"These projects in Aceh and Riau will mostly focus on expanding and improving cargo terminals. We hope national logistic costs will decline after ports are improved," he said.

## STATE CONCERNS

Tourism sector expected to gain \$7.8B in 2010

The government expects \$7.8 billion in foreign exchange revenue from the tourism sector next year, or only a slight gain over the 2008 total, Finance Minister Sri Mulyani Indrawati said on Thursday, The Jakarta Globe reported.

During 2008, Indonesia managed to draw 6.4 million foreign tourists to the country and gained \$7.5 billion in foreign exchange revenue from the sector.

However, in 2009 Indonesia lowered its target for foreign tourist arrivals because of the global economic downturn. The government now expects 6.5 million foreign tourists, down from 7 million in earlier forecasts, Tourism Minister Jero Wacik said in July.

The government has not publicly announced a revenue target for tourism in 2009.

## SOEs

### Govt. set to convert SOEs to non-listed public firms

The government is in the final stages of preparing a regulation that will allow it to convert the country's state-owned enterprises (SOEs) to non-listed public companies, The Jakarta Globe reported.

A non-listed public company is one whose shares are registered with the stock exchange but are not traded by the general public.

"We have completed the drafting of a government regulation on transparency in state enterprises, including converting them into public companies without them actually listing on the bourse," Muhammad Said Didu, secretary at the State Ministry for State Enterprises, said on Friday.

Didu said the ultimate goal of the regulation was to boost transparency in the state sector, with Pertamina being the first target, by forcing the SOEs to comply with stock exchange rules. Pertamina has long regarded as a byword for inefficiency and inept management.

"The people of Indonesia will now be able to find out about the company's financial performance and the transactions and contracts it enters into with third parties, as Pertamina will be obliged to submit its accounts to the bourse for scrutiny," he said.

Didu declined to say whether the move was a first step on the road to an eventual partial privatization of the company.

### Semen Gresik starts building Tuban IV plant

State-owned cement maker PT Semen Gresik has started work to build its fourth cement factory Tuban IV in Tuban, East Java to have an annual production capacity of 2.5 million tons, Asia Pulse reported.

Construction of the project, starting Thursday, is to be completed in 2012 at a cost around Rp3.5 trillion (\$350 million), said Dwi Soetjipto, the president of the company.

Soetjipto said demand for cement is currently weak but the company has to be prepared for a surge in demand starting in 2011.

Earlier, Semen Gresik said it would expand its production capacity to 19 million tons this year from 18 million tons last year with an investment of \$55 million.

According to Semen Gresik data the country's domestic cement consumption in July rose 2.8% to 3.5 million tons from a year earlier. It also has forecast cement consumption will grow 0-3% this year, after rising 11.5% in 2008.

Krakatau Steel builds component factory for armored vehicles

State-owned steel maker PT Krakatau Steel said it has built a factory to produce components for armored vehicles assembled in the country, Asia Pulse reported.

The factory will supply components for 154 units of armored vehicle of the APS-2 6x6 type assembled in the country by Pindad, a producer of military equipment, Krakatau Steel President Fazwar Bujang said.

Last month, 60 units of armored vehicles using steel components produced by Krakatau Steel, were handed over by Pindad to the Defense Ministry.

The production of the component by Krakatau Steel saves the country \$150 million in imports of components, Bujang was quoted as saying by Investor Daily.

Krakatau Steel also said it has set aside \$350 million to finance expansion at its complex in Cilegon, Banten, next year. It will build a new production facility for hot rolled plates (HRP)

Currently, Krakatau Steel has six production units in both the downstream and upstream sectors.

Telkom to buy 80% stake in Indonesian Tower

PT Telkom said Thursday its unit, PT Dayamitra Telekomunikasi, will acquire 80% of PT Solusindo Kreasi Pratama, also known as Indonesian Tower, Dow Jones reported.

"We believe that towers are strategic infrastructure for telecommunication companies such as Telkom and this acquisition will strengthen Telkom Group's position in the industry," Telkom president director Rinaldi Firmansyah said.

Telkom, the country's largest telecommunication company by assets and subscribers, said in a statement that Indonesian Tower has more than 1,400 customers and earnings of about Rp300 billion a year.

Indonesian Tower had more than 800 towers across the country in 2008.

The statement didn't give the value of the acquisition, for which HSBC was financial adviser.

Govt. to sell minority stakes in five local firms

The government said Wednesday that it intends to sell minority stakes in five local companies, Dow Jones reported.

The Ministry of State Enterprises announced it plans to sell its entire 37% stake in PT Atmindo, a manufacturer of industrial boilers, its 9.9% stake in tire maker PT Intirub, its 5% stake in industrial waste management service provider PT Prasadha Pamunah Limbah Industri, a 0.8% stake in paper company PT Kertas Blabak and a 0.4% stake in another paper manufacturer, PT Basuki Rachmat.

The government has named PT Danareksa Sekuritas as the financial adviser for the sale. The timetable for the stake sales remains undisclosed.

## PRIVATE SECTOR

Electronic goods sales in Indonesia up 11%

Sales of electronic goods in Indonesia rose 11% year-on-year to Rp1,856 billion (\$185.6 million) in July on stronger purchasing power, Asia Pulse reported.

Indonesia's electronic industry has been able to weather the impact of the global financial crisis, which has badly jolted other industries, the Electronic Marketer Club (EMC) said.

EMC secretary general Agus Soejanto said electronic goods price hikes of 12.5% on the average also contributed to the increase in sales turnover.

Sales are expected to be brisker in the run up to the Muslim holiday dul Fitri, Soejanto said.

Govt. names eight BWA operators

The Communications and Information Minister on Wednesday named eight operators of broadband wireless access (BWA) in 15 zones across the country, Asia Pulse reported.

Development of high speed BWA is expected to result in lower internet tariffs, deputy chairman of the Indonesian Chamber of Commerce and Industry Anindya Bakrie said.

Bakrie said demand for internet service is expected to grow faster in the coming years marked with growing numbers of subscribers and users.

He said the country's telecommunications industry is predicted to grow between 20%-25% this year and the growing number of internet users will allow operators to cut tariffs.

Separately, President Susilo Bambang Yudhoyono on Wednesday said the government would intensify development of its telecommunication and telephone infrastructure to connect all villages across the country to the internet by 2010.

Indofood acquires plantation firm for \$850,000

Integrated food producer PT Indofood Sukses Makmur, the largest instant noodle company in the world, announced it has expanded its plantation area with an agreement to pay Rp8.5 billion (about \$850,000) for 10,000 hectares of land in South Sumatra, The Jakarta Post reported.

The agreement covers 100% of shares in PT Intimegah Bestarui Pertiwi, a local plantation company that currently holds location permits for the area, Indofood said in a filing to the Indonesia Stock Exchange.

Indofood will make the purchase through PT Serikat Putra and PT Indoagri Inti Plantation, subsidiaries of its main plantation unit, Agri Resources.

Matahari H1 net profit rises

PT Matahari Putra Prima, the country's largest retailer, said Tuesday its first-half net profit more than doubled because of higher sales, Dow Jones reported.

Net profit for the January-to-June period rose to Rp130.36 billion from Rp60.04 billion a year earlier.

Sales advanced by 15% to Rp5.98 trillion from Rp5.18 trillion at end-June a year earlier.

At end-June 2009, Matahari operated 87 department stores, 45 hypermarkets, 26 supermarkets, 53 pharmacy outlets and more than 79 family entertainment centers in more than 50 cities across Indonesia.

## POWER

New bill allows local governments to issue power licenses

The new electricity bill will give full authority to regional administrations whose regions are outside state power company PT PLN's current service areas to issue licenses to local companies to provide electricity, The Jakarta Post reported.

"The regional administrations may appoint regional government-owned companies or cooperatives to provide electricity

for their areas," J Purwono, Director General for Electricity and Energy Utilization at the Energy and Mineral Resources Ministry, said on Monday.

He added that this policy would help the country to expand electricity supply to more areas. Currently only 65% of the country has electricity cover.

"Some areas in Sulawesi, Kalimantan, and Papua are still isolated from electricity grids and access to power. (With this bill) regional government in these regions can establish companies to generate and sell power in these areas," he said.

"Local government may also provide subsidies if they want to have lower electricity tariffs in their areas," Purwono added.

The electricity bill is being deliberated by the government and the House of Representatives in a process expected to be concluded by September.

Currently, electricity in all regions is supposed to be provided and distributed by PLN with central government regulating tariffs and subsidies.

Bukit Asam to build 30 MW power plant

State-owned coal mining company PT Tambang Batubara Bukit Asam plans to build a 30 MW coal-fired power plant in Bangko Barat, Muara Enim, South Sumatra to reduce its electricity costs, the company said Thursday in a press release, The Jakarta Post reported.

The construction of the power plant would cost Rp414 billion (\$41 million), it said.

The firm would also supply electricity to state power company PT PLN to help fill a power deficit in South Sumatra, he added.

Bukit Asam has also set aside \$150 million to buy coal mines and expects to complete one acquisition by the end of 2009, president director Sukrisno said on Thursday, Reuters reported.

"We are in the due diligence process for two mines, but hopefully this year we will settle the deal for one mine," said Sukrisno, adding the acquisitions are part of the firm's plan to increase its coal production to 50 million tons a year within five to six years.

## OIL & GAS

Oil, gas cost recovery to rise next year: Ministry

Cost recovery for oil and gas exploration next year is estimated to rise to \$13.01 billion as oil and gas companies try to increase oil production, the Finance Ministry said, The Jakarta Post reported.

The ministry said the increase was aimed at boosting national oil and gas output to meet production targets.

Cost recovery paid by the government to oil and gas companies this year is set at \$11.05 billion, with a best effort of \$10.05 billion, as requested by the House of Representatives.

Next year's national crude oil output is set at 965,000 barrel per day (bpd), according to the 2010 budget bill, up from the 960,000 bpd expected this year.

Separately, upstream oil and gas regulator BP Migas chief Raden Priyono said the higher estimates for production and cost recovery were at least partly due to the inclusion of output from the Tangguh oil and gas field and the Cepu oil block in the 2010 budget.

"Tangguh and Cepu have started producing. As costs have been incurred, we will have to cover them," Priyono said.

The Tangguh field in Bintuni Bay, West Papua is estimated to hold 14.4 trillion cubic feet of proven gas reserves and is expected to produce 7.6 million tons of LNG a year from two production units.

Tangguh also started producing about 7,000 barrels of oil condensate a day last month, while the giant Cepu oil field, straddling the border of Central Java and East Java, is scheduled to start pumping 15,000 bpd by the end of this month.

Asked why oil production was expected to increase only slightly, Priyono said Chevron Pacific Indonesia, one of the country's biggest oil producers, would see lower production next year due to a natural decline from its aging wells.

**Pertamina EP seeks partners to develop marginal blocks**

PT Pertamina EP said Friday it is seeking partners to jointly operate seven marginal blocks as the company focuses on larger blocks, Dow Jones reported.

The upstream unit of the state-owned oil and gas company PT Pertamina said it will open bidding for the blocks during the November 2-6 period.

Pertamina EP said two of the blocks, Tangai-Sukananti and Loyak-Talanggula in South Sumatra, are in production stage, while five are in the exploratory phase: Rantau Deep Utara and Rantau Deep Selatan in North Sumatra, Pemalang in Central Java, Tuban Selatan in East Java and Klamono Selatan in Papua.

By farming out the marginal blocks, Pertamina EP plans to focus on the development of its main blocks such as Limau, Tambun and Sukowati, which have shown significant increase in output.

Meanwhile parent company PT Pertamina's production reached 184,158 barrels per day (bpd), 7.1% above its initial average target of 171,900 bpd for this year, Energy and Mineral Resources Minister Purnomo Yusgiantoro said Thursday, Dow Jones reported.

Yusgiantoro said units Pertamina EP and Pertamina Hulu Energi raised their oil production to 136,504 bpd and 47,654 bpd, respectively.

Pertamina EP's current production overshoot its production target of 125,500 bpd for 2009. It also produced 1.090 million standard cubic feet of natural gas a day.

Ephindo to start CBM sales in 2011

Local company Ephindo and its partners will begin gas sales from their coal bed methane (CBM) blocks in 2011, its chief executive said, Reuters reported.

"The drilling of the seven-well program will start this year and will be carried over to 2010," Ephindo chief executive Sammy Hamzah said on Thursday, adding that spending on the process would be more than \$10 million.

"The first commercialization of the gas will be in the second half of 2011."

Ephindo, formed in 2005, aims to generate revenues from the three CBM blocks in Kutai and Sangatta in East Kalimantan, as well as in Sekayu in South Sumatra, within a couple of years, he added.

Ephindo and PT Medco Energy International have an equal stake in the Sekayu Block, estimated to have 183 trillion cubic feet (tcf) of CBM resources.

The company has a 45% stake in the Kutai West Block while another local company Tanito has the rest.

## MINING

Antam seeks Newmont unit shares

State-owned mining company PT Aneka Tambang (Antam) wants to buy shares in PT Newmont Nusa Tenggara (NNT) if it gets a green light from the government to invest, Antam's president director said on Friday.

Antam president director Alwin Syah Loebis said in an interview that the firm had submitted its interest to buy shares.

"PT NNT's operation in copper and gold are in line with Antam's core business," Loebis said.

Loebis said investing in Newmont fitted with the firm's strategy of buying mature mining assets to help counter the impact of weak nickel prices and the financial crisis.

"If we want to invest our equity or cash in times of crisis, we have to see our investment giving a quick return, that can quickly produce," he said.

Local media has reported Antam had been appointed to head a consortium of state-owned enterprises to buy Newmont shares, but Loebis said such a consortium had not yet been formed.

On Tuesday, state coal miner PT Tambang Batubara Bukit Asam president director Sukrisno said the central government will be represented by a consortium of state firms, which will be spearheaded by Antam, in the purchase of a 14% stake in PT NNT,

Sukrisno said Bukit Asam had allocated about \$50 million to help finance the planned acquisition.

Newmont is required by a contract to sell 31% of its stake in PT NNT - operator of the Batu Hijau Mine - to the government, the regional government, state-owned companies or designated local private companies.

The central government has said that it would buy the 14% stake, which is the stake due to be divested in 2008 and 2009.

On July 14, the government and Newmont agreed that the price of the 14% stake would be set at \$493.6 million.

Delta Dunia buys coal firm BUMA for \$550M

Publicly listed diversified company PT Delta Dunia Petroindo said on Thursday it has reached an agreement to buy coal mining contractor PT Bukit Makmur Mandiri Utama (BUMA) for \$550 million, Reuters reported.

The owners of BUMA had put the company up for sale in May to private equity firms in Asia after failing to sell it in late 2007, sources familiar with the deal said.

"The sale was in line with a strategy to increase shareholder value, and to grow revenue through a new mining and contractor platform, leveraging the ripe coal market opportunities in Indonesia," the firm said in a statement.

The firm said the transaction should be completed in the fourth quarter 2009, subject to obtaining shareholder and regulatory approval.

### Bangka Belitung proposes special tin industrial zone

Bangka Belitung provincial government has proposed a regulation to set up a special industrial zone for an advanced tin industry focusing on higher value products such as tin solder and tin alloy, head of the Bangka Belitung mines' office said Tuesday, Reuters reported.

"We want to increase exports of more high-value tin products, not only refined tin. Since Bangka Belitung is the main producer, the industry should be here," Noornedi said.

"In the future, exports of tin may be limited so that the some of the metal can be used in the downstream tin industry to create more jobs and revenue," he said, without elaborating.

The proposal was still being discussed by the governor and the provincial parliament, the official said.

### Banpu sees output up 10% in 2010

Thailand's top coal miner, Banpu, said on Monday it expected coal output from its Indonesian mines to rise 10% to about 22-23 million tons in 2010, Reuters reported.

Banpu, also the fourth-biggest coal miner in Indonesia, had forward contracts for 30% of forecast coal sales for next year, the company said in a statement.

The company's average selling prices were above \$60 a ton in the second half of this year versus \$78.86 in the first half, it said.