

## NEWS ON TRADE AND INVESTMENT IN INDONESIA

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#### ECONOMY

##### **Economic Targets are Achievable**

Bank Indonesia (BI) predicted that inflation may come in below the target of 7% given 'modest growth' in the first three quarters.

The Consumer Price Index (CPI) "may rise by another 2.2% in the last three months, so inflation will be 6% this year," deputy governor Aslim Tadjuddin said Friday.

The Central Bureau of Statistics (BPS) announced earlier that the CPI rose only 3.8% during the nine months to September.

It said declining food prices, which carry the largest weighting on the index, kept inflation low over the past two months.

BI also predicted that the rupiah was expected to strengthen further, in line with its earlier predictions that the US dollar rate could reach 8,800 by the end of the year.

BI Governor Burhanuddin Abdullah said investors had reacted positively to investors' perceptions.

"The high interest they have shown in the process to divest a number of national banks proves that they have begun to have a better perception of the prospects of the Indonesia's economy," he said.

BI also said the economy was expected to grow by 5% this year, helped by buoyant domestic demand. The bank previously predicted the economy would grow by 4.5-5.0% this year from 2003.

It warned there were imbalances in economic expansion. "The development of the economy ahead contains a risk of economic stability, especially on (consumer) price levels," BI said in a statement Tuesday (12/10/04).

#### POLITICS

##### **Foreign Leaders for Inauguration**

Leaders from Indonesia's immediate neighbors have said they will attend the inauguration of new President Susilo Bambang Yudhoyono on October 20.

Leaders who want to fly to Jakarta include re-elected Australian Prime Minister John Howard, East Timor Prime Minister Mari Alkatiri, Malaysia's Abdullah Badawi and Singapore's Lee Hsien Loong.

##### **Ba'asyir Charged in Marriott Attack**

Alleged terrorist leader Abu Bakar Ba'asyir was formally charged Friday (15/10/04) with ordering his followers to launch a suicide attack last year on

the J.W. Marriott Hotel, in a move that should please Western governments which have long demanded action against the 67-year-old cleric.

Bashir, who has been jailed since April, is believed to be the inspirational leader of the Jemaah Islamiyah (JI) terror group. JI has also been blamed for a string of terror attacks in Indonesia dating back to 1999 which have killed a total of 224 people and injured hundreds. Among them were the September 9 attack on the Australian Embassy in Jakarta, last year's J.W. Marriott hotel suicide attack, and the October 12, 2002 Bali bombings.

"Ba'asyir is charged with motivating or ordering people to take part in terrorism, in this case related to the J.W. Marriott bombing," said Prosecutor Andi Herman, after filing a 65-page charge sheet against the cleric with South Jakarta District Court, the Associated Press reported.

Herman added that Ba'asyir would be charged with storing explosives in connection with a massive seizure of bomb-making materials last year in Central Java.

He will not be charged in connection with the Bali bombings because of the ruling by the Constitutional Court that new anti-terror laws cannot be applied retroactively.

Ba'asyir has consistently denied any connection with terrorism and says there is no such organization as JI. He says is being targeted for his attacks on the US and Israel.

### **New Leader for PKS**

Tifatul Sembiring took over as acting chairman of the Prosperous Welfare Party (PKS) Monday (11/10/04) after Hidayat Nur Wahid resigned to concentrate on his new position as Speaker of the People's Consultative Assembly (MPR), *The Jakarta Post* reported.

The party's executive board appointed Sembiring, formerly coordinator of PKS's activities for Sumatra, pending the election of a new leader during its congress slated for April 2005.

Hidayat said he was setting an example that once politicians took up state duties, they should surrender their party commitment to avoid conflicts of interest.

"The behavior of the elite must change, as we can't expect a sweeping reform to come soon. They should concentrate on working for the public," Hidayat said.

Sembiring said the main focus of his efforts as acting party chairman would be to extend PKS membership out of its base in the cities.

### **Press Council Demands Apologies**

The Press Council ruled Wednesday (13/10/04) that three media outlets had violated the Code of Ethics of Indonesian Journalists (KEWI) in their reporting on rumors that State Enterprises Minister Laksamana Sukardi was going to

leave the country. It ruled that the media must publish apologies to him, *The Jakarta Post* reported.

Press Council executive Sabam Leo Batubara said the three -- *Trust* magazine, *Nusa* daily and *Reporter* daily -- had violated the presumption of innocence in suggesting that Laksamana had left the country with more than \$100 million in state money.

"Based on the Press Council's [review], the three media groups violated the KEWI, and so, we recommend that each of them publish a public apology for Laksamana," Batubara told Antara.

## REGIONS

### **Islamic Courts for Aceh**

An Islamic judicial system has been introduced in Indonesia's province of Aceh as part of increased autonomy granted to the province by Jakarta, a judge said Tuesday.

"The head of the Supreme Court is currently in Aceh to inaugurate the operation of the Shariah Court there," said Andi Syamsu Alam, deputy chairman of the Supreme Court for religious court affairs, Agence France-Presse reported.

Alam said Supreme Court chairman Bagir Manan inaugurated the system in the provincial capital Banda Aceh on Monday (11/10/04).

Under the new system, 19 district/municipal religious courts and one appeal court based in the Acehnese capital will hear cases in addition to the existing network of secular courts. "Cases involving non-Muslims are still handled by the (secular) judicial court," Alam said.

## MACROECONOMY

### **Bank Credits Jump 6.6%**

Bank credits up to August increased by 6.6% or Rp34.1 trillion (\$3.7 billion) to Rp547.5 trillion compared to the previous quarter, Erwin Riyanto, deputy bureau chief of Bank Indonesia, told the central bank's board of governors Tuesday (12/10/04), Antara reported.

Third party funds increased by 2.7% from Rp24.2 trillion to Rp919.3 trillion, and credits increased by 9.1% to Rp13.48 trillion compared to the previous quarter.

Up to August 2004 new credits totaled Rp57.13 trillion, while bank credits improved in quality as gross and net non-performing loans (NPLs) respectively fell to 7.1% and 2%.

## SOEs

### **PT PAL to Produce Corvette**

State-owned shipbuilding company PT PAL Indonesia said it will build a navy corvette at a cost of \$40 million in cooperation with 12 other state and private companies, Antara reported.

The corvette will be completed in 2007 and will be first of its type to be built in the country, PT PAL President H. Suryohadiprojo said.

The 80.4 meter vessel will be designed jointly with Orrizonte Sistem Navali S.P.A (Ficantieri Shipyard) and Italian Navy Corvette.

### **BRI Set to Boost Lending**

State-owned Bank Rakyat Indonesia (BRI) has predicted that its lending will expand by 18% in 2005 from this year's credit target of Rp48 trillion (\$5.33 billion), Antara reported. This year its credit expansion target was set at Rp11 trillion.

Bank president Rudjito said the bank had a capital adequacy ratio of 20% in June, leaving room for expansion.

The bank reported a net profit of Rp1.7 trillion in the first half of this year, expected to grow to Rp3.4 trillion for the whole of this year, exceeding the previously set target of Rp2.6 trillion.

### **Telkom Expects Revenue Boost**

PT Telekomunikasi Indonesia (Telkom), Indonesia's largest telephone company, expects 2005 consolidated revenue to grow 20%, chief executive Kristiono said Wednesday, according to Dow Jones Newswires. The company is targeting similar growth this year.

"To achieve a 20% growth in revenue, Telkom will try to get 5 million new cellular phone subscribers, 2 million Flexi subscribers, and 300,000 fixed-line subscribers next year," Kristiono told reporters.

### **Garuda to Cut Last Europe Flight**

PT Garuda Indonesian Airways (GIA) will stop flying to Europe in November to prevent further losses, Antara reported.

GIA President Indra Setiawan said the load factor is no longer profitable on the Amsterdam route, the last of Garuda's European destinations.

He said Garuda has reached an agreement with Malaysian Airlines (MAS) to carry its passengers from Kuala Lumpur.

Peak season load factors on the route have been recording 80-90% but low seasons loads are only around 30%. Aircraft would be dedicated to more profitable routes in the Middle East, Beijing and Japan.

### **Lion expands**

Meanwhile budget airline PT Lion Mentari Airlines has increased its fleet size to 39 with the purchase of another 15 Boeing aircraft, and is planning to add new routes in Indonesia and the region.

Lion Air spokesman Hasyim Arsal Alhabs said the airline plans to open new domestic routes in December. These include flights to Semarang, Jambi, Gorontalo, Bangka Belitung, and to several cities in Papua and the eastern part of Indonesia.

Regional flights being considered include South Korea, Hong Kong, Guangzhou and Australia via Denpasar in Bali.

#### STATE CONCERNS

##### **Cyber Law Needed: Soewandi**

Industry and Trade Minister has called for the introduction of a law on electronic transactions to allow for the development of e-commerce, Antara reported.

She said trade through the internet has begun to expand to Indonesia and small and medium enterprises are offering goods through e-commerce but buyers are reluctant to do deals because of the lack of legal certainty.

Teddy Sukardi, chairman of an IT group, said the absence of a law was losing Indonesia billions of dollars a year in trade.

#### PRIVATE SECTOR

##### **Vehicle Sales Keep Rising**

New vehicle sales in Indonesia jumped 17% to 45,371 units in September from 38,695 in August, automotive company Astra International said Thursday (14/10/04), citing data from the national car assemblers' association, Gaikindo.

Domestic new vehicle sales in the first nine months of the year totaled 348,738 units, up 28% on year, according to Gaikindo, Dow Jones Newswires reported. Analysts attribute the rise to relatively low interest rates.

Toyota Astra Motor (TAM) maintained its lead in the country's car market with sales totaling 99,798 units in the first nine months of this year, Antara reported.

TAM spokesman Hendrayadi Lastiyoso said the sales during January-September were 28.6% of the total car sales of 348,647 units in the country during that period, or up from 76,591 units in the same period last year.

Hendrayadi predicted that car sales in the country would reach 420,000 units this year with TAM taking 33%.

##### **Proctor & Gamble Sign Up for CPO**

Major US household products company Procter & Gamble Chemicals (P&G Chemicals) signed a deal valued at \$1.8 billion with palm oil plantation PT Domas Agointi Prima in Singapore Friday (15/10/04), *The Jakarta Post* reported.

PT Domas is a unit of the Sawit Mas Group, whose chairman, Susanto Lim signed the agreement together with P&G director for Asia-Pacific Martin Herrington. Bank Mandiri president E.C.W. Neloe and Bank Rakyat Indonesia president Rudjito witnessed the signing.

Sawit Mas Group spokesman Erick Sitompul said the deal was the second this year between the two companies under which PT Domas will supply oleochemicals to the American company. The earlier contract was valued at \$200 million.

Sawit Mas Group operates more than 100,000 hectares of oil palm plantations in Sumatra and several CPO processing plants in Riau and North Sumatra. It is constructing an integrated oleochemical factory in Kuala Tanjung, southeast of Medan.

### **Bank NISP Posts 85% Profit**

PT Bank NISP posted a net profit of Rp181 billion (\$20 million) in the first eight months of this year or an 85% increase year-on-year, Antara reported.

The bank, which is 22.5% owned by Singapore's Overseas-Chinese Banking Corp. attributed the surge to an increase in lending especially to the consumer sector. Its credits totaled Rp9.2 trillion up 20% from the same period last year. Net interest income shot up 53% to Rp411 billion, president Pramukti Surjaudaja said.

### **Moody's Upgrade for Indofood**

Moody's Investors Service has upgraded the outlook for PT Indofood Sukses Makmur B1 local currency issuer rating to stable from negative, a press release from the ratings agency stated. The outlook for its B2 foreign currency rating remains stable.

"The change in outlook reflects the company's maintenance of its dominant position in Indonesia's instant noodle and flour markets -- although profitability is declining - its relatively strong credit metrics and management's intention to lower leverage," the statement said.

### **Bogasari IPO planned**

Indofood is planning to sell 10% of stocks in its flour division, PT Bogasari Flour Mills, next year to raise around \$100 million, Bisnis Indonesia reported, citing Indofood vice president Franciscus Welirang. "Currently, we are undertaking a restructuring process to spin off Bogasari," he said.

The IPO proceeds would be allocated to refinance Indofood's debt in efforts to bring down its debt to equity ratio to 1:1 by end 2005.

Bogasari is the world's largest flour producer. It operates two milling factories in North Jakarta and Surabaya with combined annual capacity of 3.6 million tons.

### **JSX Forecasts 30 IPOs in 2005**

The Jakarta Stock Exchange (JSX) believes 30 new companies will offer shares to the public next year, *The Jakarta Post* reported.

JSX president director Erry Firmansyah said the number would depend on where economic growth of 5-6% could be achieved. He told reporters after an extraordinary shareholders meeting that 20 firms were expected to list this year. Another 45 listed companies would make rights issues.

#### **4% US Textile Market Share Forecast**

Industry and Trade Minister Rini M.S. Soewandi says Indonesia should be able to take 4% of the textile and garment market in the United States after the abolition of the quota system in 2005, Antara reported.

She said locally produced basic materials and jeans products still had good competitive advantage.

Textiles and garments account for 15% of export income and the US is the largest market for the commodities.

### INFRASTRUCTURE

#### **Bitung Port Inaugurated**

President Megawati Sukarnoputri officially opened Tuesday (12/10/04) the Bitung seaport in North Sulawesi, *The Jakarta Post* reported.

The construction of the seaport was financed with loans from the Japan Bank for International Cooperation (JBIC). A statement from the bank did not say how much money was allocated for the Bitung port.

The port is expected to be able to accommodate rising demand for cargo and container shipping activities within the new growth triangle between East Malaysia and the southern Philippines and beyond.

Total cargo volume from foreign vessels to seaports in the Philippines' Mindanao province rose to 1,519,619 metric tons during the first quarter of 2004 from 1,451,199 metric tons in the same period in 2003.

### INVESTMENT

#### **PPB Oil to Expand**

Malaysia's PPB Oil Palms Bhd plans to expand its palm oil plantations in Indonesia, *The Star* reported, quoting Managing Director Khoo Eng Min.

Khoo said PPB Oil is in the final stages of talks to buy 45,000 hectares of land in Central Kalimantan, Indonesia, which if achieved will give it total acreage of 123,602 hectares.

Khoo said the company would plant between 10,000 and 20,000 hectares per year.

The company is also investing 30-35 million ringgit (\$7.9 million-\$9.2 million) in a palm oil mill at Sampit in Kalimantan with maximum capacity of 120 tons.

Golsta Synergy Bhd, a company involved in the design, fabrication, installation and maintenance of specialized machinery and equipment, will also venture into oil palm cultivation in Indonesia.

Golsta said in a statement its unit Gothic Assets Sdn Bhd has entered into a Memorandum of Understanding (MOU) with Indonesia's Karimun district to participate in the cultivation of oil palm seeds and seedlings in Buru and Kundur island in Karimun.

#### POWER

##### **Kepeco Signs Java Plant Mou**

Korea Electric Power Corp. (Kepeco) has agreed to go ahead with a planned \$350 million investment project for a 740 MW gas-fired power plant at Cilegon, West Java, state-owned electricity company Perusahaan Listrik Negara (PLN) said, according to Antara.

The power plant will be built at the location of a liquefied natural gas (LNG) terminal to be built by PLN in Cilegon, company president Eddie Widiono said.

A memorandum of understanding had been signed with Kepeco to build the power plant, to be finished by 2009, he said.

#### OIL & GAS

##### **Tangguh Signs Sempra Deal**

BP Plc. has signed an agreement to supply US firm Sempra Energy with 3.7 million tons of liquefied natural gas (LNG) a year for 20 years, Indonesia's oil and gas watchdog BP Migas said Tuesday (12/10/04), according to Reuters.

The LNG will come from BP's Tangguh gas field in Papua province, which holds 14.4 trillion cubic feet of certified natural gas reserves.

Tangguh will begin to deliver gas in 2008 to Sempra's planned LNG terminal near Ensenada in Baja California, Mexico, said BP Migas, the government agency that monitors and regulates foreign oil and gas activities in Indonesia.

"This signing is a significant step forward in the Tangguh LNG project," and means Tangguh has sold the initial two trains that are going to be developed, it added.

In August, BP signed a deal with South Korean utility K-Power for the Korean firm to take 600,000 tons of LNG per year (tpy) starting in 2006 for 20 years. K-Power also has an option to buy an extra 200,000 tpy to 2010.

South Korean steel maker POSCO Co. signed a \$1.9 billion deal in July with the Tangguh LNG consortium to buy 550,000 tpy over 20 years from next year. China's CNOOC Group signed a final contract in 2002 to buy 2.6 million tpy.

Investment in the Tangguh development will amount to about \$5 billion, with start-up scheduled for mid-2008, although BP only expects to make a final investment decision on the project by the end of this year.

### **Chile May Buy Gas**

Chile has expressed interest in buying gas from Indonesia, and plans to send a delegation to Jakarta later this year to discuss the matter further, Antara reported.

Chile plans to hold a tender in March or April next year, with Indonesia likely to be bidding against Algeria and Malaysia. Chile is seeking to reduce its energy dependency on neighboring Argentina.

Meanwhile BP was reported to have lost a tender to supply LNG to Korea Gas Corp (Kogas) on price, *Bisnis Indonesia* reported, quoting BP Migas deputy chairman for finance, economy and marketing Eddy Purwanto.

"There were several other LNG producers that offered lower (prices)," Purwanto said. The Kogas tender was for an annual supply of 6 million tons of LNG for 20 years starting 2008.

The South Korean company is already importing LNG from Indonesia's Arun gas fields in Aceh under a contract that will expire in 2007.

### **PGN Fast-tracks Pipeline**

W.M.P Simanjuntak, president director of state-owned gas distributor firm Perusahaan Gas Negara (PGN), said Thursday (14/10/04) the company's pipeline project linking the Duri gas fields in Riau province with cities in North Sumatra would be completed sooner than expected, *The Jakarta Post* reported.

The project, connecting 493 kilometers of pipelines and costing around \$300 million, is expected to be completed by July 2007 instead of December 2007 as planned, Simanjuntak said.

The firm had already secured both suppliers and buyers for the gas, he said after signing agreements with Kondur Petroleum SA and Asahan Power Corporation Limited.

Under the agreements, PGN will buy up to 120 million cubic feet of natural gas a day from Kondur's plant in Duri and sell around 100 million cubic feet to Asahan Power.

Asahan Power will use the gas to supply its 600-MW power plant in North Sumatra, Simanjuntak said.

In the early stages, the pipelines would transfer 80 million cubic feet of natural gas per day starting 2007 and would be gradually increased to 120 million cubic feet over 20 years.

### **Conocophilips Ships Natuna Output**

ConocoPhillips Indonesia has started selling oil and gas from its Belanak Natuna fields to other ASEAN nations, Antara reported.

The first shipment was made on Monday (11/10/04) after the launching of the Belanak Natuna processing vessel built by PT McDermott Indonesia.

McDermott Indonesia President Stven Roll said the completion of the \$150 million oil and gas processing vessel enabled ConocoPhillip to sell gas to other ASEAN countries.

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*Source: The Coordinating Ministry for Economic Affairs Republic of Indonesia*