



26 February 2019

Piyush Gupta
Chief Executive Officer
DBS
12 Marina Boulevard, Level 3
Marina Bay Financial Centre Tower 3
Singapore 018982

Dear Mr. Gupta:

Re: Proposed finance to Java 9 and 10

We, the undersigned, write to raise our concerns about DBS' consideration of finance to Java 9 and 10 (Banten Suralaya), a 2,000 MW coal-fired power project in Banten province in Indonesia. Perusahaan Listrik Negara (PLN), Indonesia's state utility, and Barito Pacific, an Indonesian company, are the sponsors of the project. Doosan Heavy Industries is one of the EPCs.

Java 9 and 10 is mired in risk, as detailed in the briefing below, given:

- resulting air pollution from this project and potential litigation;
- overcapacity issues;
- enhanced financial risk for the already loss-making off-taker (PLN), and sovereign-risk for the government of Indonesia, as well as links to corruption;
- the impacts of the impending election on proposed coal-fired power projects, and
- the financial state of Doosan Heavy.

Given DBS' stated reasoning behind its continued coal power funding is [65 million people in ASEAN without access to electricity](#), you would be interested to know that Java 9 and 10 is being constructed in the Java-Bali grid. This grid serves areas with some of the highest rates of electrification in the country at 99.99% and is facing issues with overcapacity. The project would exacerbate this overcapacity issue at the cost of

the health of Indonesian people, and at the risk of harming the already poor financial health of PLN and the government of Indonesia.

In light of the issues noted in the briefing, Java 9 and 10 is a project with limited reward but presents significant risk. DBS should exit its role as financial advisor at the next available opportunity.

We are available to discuss this letter, the attached briefing and any questions that you may have. Please feel free to contact us with your response.

Sincerely,

350.org East Asia
Aksi Ekologi dan Emansipasi Rakyat (AEER)
Banktrack
Friends of the Earth US
Greenpeace Southeast Asia
Global Witness
Korean Federation for Environmental Movement
Market Forces
National Resources Defence Council
PM Haze (Singapore)
Solutions for our Climate (Korea)
Trend Asia
WALHI Jawa Barat
WALHI (Friends of the Earth Indonesia)

Briefing: Java 9 and 10

1. Resulting air pollution from Java 9 and 10 and potential litigation related to this project
2. Overcapacity issues
3. Enhanced financial risk for the already loss-making off-taker (PLN), and sovereign-risk for the government of Indonesia, as well as links to corruption
4. Impacts of the impending election on proposed coal-fired power projects
5. Financial state of Doosan Heavy, one of the EPCs

1. Air pollution and legal challenges

There is significant pre-existing coal power capacity in the area. Banten Suralaya itself is already a large subcritical coal power complex. The area around the project has several other coal power projects.

Coal power is having serious negative effects on health and air quality in Jakarta. Air Visual has ranked Jakarta at least twice in the last year as having the worst air quality in the world.¹ As a result, in December 2018, the Coalition for the Clean Air Initiative registered their intention to lodge a lawsuit against the President and the Governor of Jakarta for failing to address the level of air pollution in Jakarta.² The lawsuit includes pending projects such as Java 9 and 10 as contributing to the poor air quality. A 2017 Greenpeace report models the negative impact of the coal-fired power plants that operate within 100 kilometres of Jakarta, and includes the impact of such pending projects.³

2. Overcapacity in the Java-Bali Grid

If constructed, Java 9 and 10 will not assist the average Indonesian in accessing electricity. Instead, it will create more damage to the environment of an already highly polluted area of West Java and Banten. As noted above, the Java-Bali grid, where this project is being constructed, has some of the highest rates of electrification in the country at 99.99%.⁴

Approximately 40% of the electricity being produced on the Java-Bali grid was not being used, according to statements by PLN's CEO in November 2017.⁵ According to a

¹ Jakarta Post, Jakarta, Denpasar among world's most polluted cities this week: Report, (26 July 2018), online: <https://www.thejakartapost.com/life/2018/07/26/jakarta-denpasar-among-worlds-most-polluted-cities-this-week-report.html>

² Citizens to sue govt for 'doing nothing' about Jakarta's air pollution, Jakarta Post, (6 December 2018), online: <https://www.thejakartapost.com/news/2018/12/05/citizens-to-sue-govt-for-doing-nothing-about-jakartas-air-pollution.html>

³ Jakarta's silent killer, Greenpeace, (24 October 2017), online: <http://www.greenpeace.org/seasia/Press-Centre/publications/Jakartas-Silent-Killer/>

⁴ Laporan Kinerja Tahun, Directorate General of Electricity, 2017, online: <http://www.djk.esdm.go.id/pdf/LAKIP/LAKIN%202017.pdf>

⁵ 40% of electricity unused, PLN CEO says, The Jakarta Post, (17 November 2017), online: <https://www.thejakartapost.com/news/2017/11/17/40-of-electricity-unused-pln-ceo-says.html>

Ministry of Energy and Mineral Resources presentation, PLN's business plan for 2018 to 2027 shows a gap between demand and existing capacity of 28.2% to 30.7%.⁶ This gap could be even greater given PLN's projections for demand are often incorrect, overestimating the increase in electricity sales by 4.2% in 2017.⁷

Given the fact that the electricity generated by Java 9 and 10 will go largely unused, a new, 2,000MW coal-power station in that grid is unnecessary.

In September 2018, the Government of Indonesia planned to delay approximately 15GW of coal power projects because of its widening current account deficit.⁸ Java 9 and 10 were originally slated to be part of this delay, but this may have changed as the project continues to advance.⁹

3. PLN's poor financial health and corruption allegations

The sponsor of the project, PLN, is facing financial pressure. In April 2018, the Institute for Energy Economics and Financial Analysis (IEEFA) released a report indicating that without government subsidies, PLN would have lost US\$2.3 billion in 2016 and US\$1.47 billion in 2017.¹⁰

PLN's poor financial health will only be worsened by paying for overcapacity as the take-or-pay clauses in power purchase agreements mean PLN will have to pay for unnecessary electricity. Furthermore, renewable energy will become cheaper than operating coal power, which the Carbon Tracker Initiative estimates could happen for solar in Indonesia in less than 10 years.¹¹ PLN faces the prospect of having to make astronomical payments to coal power projects although the power sourced from them is more expensive than power from renewables.

Lenders may allege that investments are safe as they are supported by long term power purchase agreements ("PPA") and sovereign guarantees, despite the significant burden placed on the Indonesian taxpayer. Nevertheless, investments are at risk where renewable power becomes cheaper, the Indonesian government has more incentive to pause or cancel coal power projects, as they did in September last year.

PLN has also been potentially implicated in recent corruption charges. In July 2018, the Indonesian Corruption Eradication Commission (KPK) arrested Eni Mulani Saragih (Eni), the deputy chair of the House of Representatives (DPR) Energy Commission and

⁶ As quoted by Greenpeace, Uncertain and Harmful: Japanese Coal Investments in Indonesia, (December 2018), online: https://storage.googleapis.com/planet4-japan-stateless/2018/12/26d52a76-20181206_unneeded_and_harmful_en.pdf

⁷ PLN's electricity sales still grow at snail's pace, Jakarta Post, (22 December 2017), online: <https://www.thejakartapost.com/news/2017/12/22/plns-electricity-sales-still-grow-at-snails-pace.html>

⁸ Rupiah's Slump Puts \$25 Billion Indonesian Projects on Hold, Bloomberg (4 September 2018), online: <https://www.bloomberg.com/news/articles/2018-09-04/indonesia-to-halt-25-billion-power-projects-to-shield-currency>

⁹ Indonesia, South Korea agree on development of Suralaya Power Plant, Barito Pacific, (13 September 2018), online: <http://www.barito-pacific.com/news>

¹⁰ IEEFA, Perusahaan Listrik Negara (PLN): A Power Company Out of Step With Global Trends, (April 2018), online: <http://ieefa.org/wp-content/uploads/2018/04/PLN-A-Power-Company-out-of-Step-With-Global-Trends-April-2018.pdf>

¹¹ Carbon Tracker, Cheaper to build new renewables than run existing coal plants within 10 years' time in South-east Asia, (29 October 2018), online: <https://www.carbontracker.org/cheaper-to-build-new-renewables-than-run-existing-coal-plants-within-10-years-time-in-south-east-asia/>

Johanes Bidisutrisno Kotjo (Kotjo).¹² Eni was alleged to have received IDR\$4.8 billion from Kotjo, to facilitate a company in which Kotjo was a shareholder to become the sponsor of a coal power project in Indonesia. Idrus Marham, the Indonesian Social Affairs Minister, was also embroiled in the scandal and had to resign.¹³

This alleged bribery has involved Sofyan Bashir, the Chief Executive Officer of PLN, and he has been questioned about his knowledge of the allegations.¹⁴

4. Effect of the Indonesian election

Furthermore, Indonesian Presidential elections will take place in April this year and the fate of planned new coal power plants is an important topic. For example, the campaign team of presidential candidate Prabowo Subianto has expressed its wish to cut the use of coal and to revamp the 35,000 megawatt (MW) electricity program if Prabowo is elected. He even went further to reveal their plan to conduct due diligence on each PPAs signed by PLN, to find contracts that are not beneficial for the Indonesian people.¹⁵ Current President Jokowi's camp has also emphasized the expansion of renewable energy.¹⁶ It is difficult to understand why DBS is seeking to undertake such a large investment in light of such political uncertainty.

5. Doosan Heavy's financial health

Despite significant Korean governmental support, Doosan Heavy is a company known by financial investors for its decline. During the past ten years, Doosan Heavy share prices have fallen from approximately KRW 90,000 to KRW 9,000 and its credit ratings from A to A+ to BBB+. Recently, the Mae-Il Economy reported on Doosan Heavy's difficult situation,¹⁷ with significant percentages of Doosan's executives and employees either being downsized or leaving of their own accord. Many of the remaining employees have even taken alternating pay cuts.

Being involved in a project with such a company creates risk for DBS.

Given the risks of Java 9 and 10 as an investment, DBS should review its involvement and exit its role as financial advisor at the next available opportunity.

¹² KPK to Question PLN Chief on Riau PLTU Bribery Case, Tempo, (20 July 2018), online:

<https://en.tempo.co/read/920112/kpk-to-question-pln-chief-on-riau-pltu-bribery-case>

¹³ Indonesia's Social Affairs Minister quits over graft probe, Straits Times, (25 August 2019), online:

<https://www.straitstimes.com/asia/se-asia/indonesias-social-affairs-minister-quits-over-graft-probe>

¹⁴ *Supra*, note 12.

¹⁵ Jakarta Post, Prabowo camp calls for coal-use cut, 35,000 MW program revamp, (10 February 2019), online:

<https://www.thejakartapost.com/news/2019/02/10/prabowo-camp-calls-for-coal-use-cut-35000-mw-program-revamp.html>

¹⁶ The Jakarta Post, Overview: What to expect from upcoming presidential debate on energy (17 February 2019), online:

<https://www.thejakartapost.com/news/2019/02/11/preview-what-to-expect-from-upcoming-presidential-debate-on-energy.html>

¹⁷ 두산중의 눈물...전문인력 500여명 떠나고 조직 통합, (20 January 2019) online:

<http://news.mk.co.kr/newsRead.php?year=2019&no=41150>