

## Investor Briefing | Concern about CIMB's potential involvement in Jawa 9 and 10 | 10 July 2020

Dear Sir or Madam,

This briefing is to call investors' attention to CIMB's involvement as one of the potential lenders to the proposed new Jawa 9 and 10 coal power plant in Indonesia. This project is sponsored by two Indonesian companies, Perusahaan Listrik Negara (PLN) (state-owned) and Barito Pacific (publicly listed), and Korean state-owned company, KEPCO. This project is proposed to be constructed by Korea's Doosan Heavy Industries.

There are serious concerns regarding the financial viability and necessity of this project. It will pollute the air in surrounding areas and beyond, and affect the lives and livelihoods of local communities. We understand financial close for this project has been slated for this year. **We urge investors to raise this project with CIMB by 21 August 2020.**

### Additional air pollution for uncalled for electricity

Jawa 9 and 10 coal power plant has been proposed to be built in Banten Province, about 100 kilometres from Jakarta, Indonesia. Currently, there are 22 plants operating in Jakarta and the surrounding area, with a further 52 coal power projects in the neighbouring Banten province. Reports have highlighted the horrendous air pollution and associated respiratory and skin diseases affecting the local population.

[1] Modelling of health impacts has estimated that Jawa 9 and 10 will cause over **4,700 premature deaths** over its operating lifetime.[2]

Given the likelihood that most of the electricity produced by Jawa 9 and 10 may not be used, these additional harms would be especially egregious. PLN'S CEO states that due to COVID-19 slowdown, Indonesia's electricity demand may fall by 9.7%.[3] The Jawa-Bali grid, where the proposed Jawa 9 and 10 coal power plant project is located, is projected to be

oversupplied by up to 41.5% in 2020,[4] creating a high likelihood that electricity from Jawa 9 and 10 will also remain unutilised. PLN's poor financial health remains a critical issue and its 2019 profit, before the COVID-19 slowdown, had already fallen 63% due to high operational costs.[5] These factors create a significant risk that PLN could postpone new coal power plants.

### **Exposure to significant financial risks**

In the 2nd pre-feasibility study,[6] the Korean Development Institute (KDI) gave Jawa 9 and 10 a profitability assessment of **negative USD 43.58 million**.

Doosan Heavy Industries, the Engineering Procurement and Construction (EPC) contractor for the project, has been exhibiting signs of financial ill-health. From 2010 to June 2020, the company's credit rating fell from A+ to BBB-, and its share price fell 93%, from KRW 78,000 to around KRW 5,000.[7] According to the International Energy Agency's World Energy Investment 2019 report, investment decisions for coal power declined by 80% in the last decade. [8] Nevertheless, Doosan Heavy has continued to rely on coal power plant equipment for 70 to 80% of its revenue.

Korea Development Bank and Export-Import Bank of Korea bailed out Doosan Heavy providing approximately USD 2.9 billion purportedly as part of the COVID-19 recovery.[9] However, as noted above, Doosan Heavy's financial crisis predated the COVID-19 crisis. The pre-feasibility study[10] also pointed out that the EPC cost for the project is significantly lower than comparable projects in Indonesia. Considering the financial difficulties of Doosan Heavy, cost overruns could result in delays to the construction work. **This would make it difficult to guarantee the project delivery of Jawa 9 and 10**, and could shift much of this risk to other parties in the transaction. No investor connected to this project should allow it to proceed without a thorough assessment of Doosan Heavy's financial state.

## Contradictions to CIMB's climate commitments

CIMB, in its 2018 Sustainability Statement, has a commitment to considering climate change, based on UN Sustainable Development Goal 13. In 2019, CIMB also created a group sustainability policy and committee which will consider environmental and reputational risks to CIMB resulting from its lending practices. The environmental and social risks noted above would undoubtedly rule out CIMB's potential involvement in Jawa 9 and 10. CIMB supporting a coal power plant today will contradict with CIMB's commitment to build a sustainable future as it would lock Indonesia into using coal past 2045, when experts say the world needs to be completely out of coal by 2040 to ensure a safe climate.<sup>[11]</sup>

We understand Jawa 9 and 10 has not reached financial close. **We urge investors to ensure CIMB keeps its climate commitments, to raise these financial, environmental and social concerns with CIMB and to encourage the company to avoid Jawa 9 and 10 by 21 August 2020.**

We would appreciate the opportunity to further discuss our concerns. You can contact us at [binbin.mariana@marketforces.org.au](mailto:binbin.mariana@marketforces.org.au).



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[1] Shashank Bengali, LA Times, 'China, Japan and South Korea, while vowing to go green at home, promote coal abroad', (13 May 2019), online: <https://www.latimes.com/world/asia/la-fg-indonesia-south-korea-coal-energy-finance-20190513-story.html>.

[2] Greenpeace, Health Impacts of Units 9 10 of the Jawa Coal-Fired Power Plant in Banten, (November 2019), online: <https://www.marketforces.org.au/wp-content/uploads/2019/12/Korean-Jawa-9-10-Health-Impacts-compressed.pdf>.

[3] Reuters, Indonesian utility PLN cuts revenue target, seeks to delay debt payments, (22 April 2020), online: <https://www.reuters.com/article/indonesia-electricity/update-1-indonesian-utility-pln-cuts-revenue-target-seeks-to-delay-debt-payments-idUSL3N2CA2HT>.

[4] Reuters, Indonesia's PLN "burdened" by electricity oversupply-official, (5 March 2020), online: <https://www.reuters.com/article/indonesia-electricity-idAFL4N2AY2AO>.

[5] The Jakarta Post, 'PLN profit nosedives 63 percent as costs soar', (20 May 2020), online: <https://www.thejakartapost.com/news/2020/05/20/pln-profit-nosedives-63-percent-as-costs-soar.html>

[6] KDI Pre-feasibility Study for KEPCO's Jawa 9, 10 Project (June 2020) from Congressman SH Kim's Office.

[7] Mongabay, Green groups target South Korea's bailout of coal powerplant builder, (10 April 2020), online: <https://news.mongabay.com/2020/04/south-korea-doosan-heavy-coal-power-bailout-covid19-indonesia/>.

[8] International Energy Agency, World Energy Investment, 2019, (May 2019), online: <https://www.iea.org/reports/world-energy-investment-2019>.

[9] Pulsenews, "Doosan Heavy I&C gets another \$1bn, raising total state bailout to near \$3 bn." (2 June 2020), online: <https://pulsenews.co.kr/view.php?year=2020&no=564186>

[10] KDI Pre-feasibility Study for KEPCO's Jawa 9, 10 Project (June 2020) from Congressman SH Kim's Office.

[11] Climate Analytics, Coal Phase Out, online: <https://climateanalytics.org/briefings/coal-phase-out/>.

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