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GREENPEACE

TREND ASIA

Joe Kaeser
CEO
Siemens Aktiengesellschaft
Werner-von-Siemens-Straße 1
80333 Munich, Germany

27 January 2020

Dear Mr. Kaeser:

Re: Concerns about Siemens' potential investment in Jawa 9 and 10 project

We, the undersigned organisations, supporting a transition to a sustainable, low carbon economy, understand that your company is providing equipment and your bank is considering providing finance to the 2,000 MW Jawa 9 and 10 coal power project in Banten, Indonesia. We urge you not to support nor fund this coal power project, which carries myriad financial, reputational, environmental and social risks and would expressly contradict your stated climate commitments.

Environmental and social concerns

Jawa 9 and 10 is slated to be constructed proximate to Jakarta, sponsored by PLN and Barito Pacific and constructed by Korea's Doosan Heavy Industries. It is being proposed in an area already saturated with coal power plants, with 22 plants operating in Jakarta and the surrounding area and 52 coal power projects in the neighbouring Banten province.

There have been reports about the horrendous air pollution in the area and associated respiratory and skin diseases in the area.¹ These air quality concerns are not restricted to Banten. In response to Jakarta's air quality being ranked worst in the world, a group of 31 plaintiffs filed a lawsuit in 2019 seeking better standards across the sectors causing the pollution - including coal power.² This lawsuit seeks to address pollution that would be

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 *The Straits Times*, 'Choked by smog, Jakarta residents join forces to sue government for better air quality' (3 June 2019), online: <https://www.straitstimes.com/asia/se-asia/choked-by-jakarta-smog-residents-join-forces-to-sue-government-for-better-air-quality>.

emitted by several coal power projects currently in development stages, including Jawa 9 and 10.

The air pollution caused by this project alone will have significant costs to the health and livelihoods of communities in Indonesia desperate to avoid devastating impacts to their local environment. Health impact modelling conducted for Jawa 9 and 10 estimates that it would cause over 4,700 premature deaths over its operating lifetime.³

These additional harms would be especially egregious given that much of the electricity produced by Jawa 9 and 10 may not be used. According to the latest energy plan (RUPTL), the current reserve margin (excess capacity as a percentage of expected peak demand) in the Java-Bali grid is 28%. These margins are also based on PLN's estimates of annual electricity demand growth at over 6 percent in the last few years, whereas its actual growth has been lower.⁴ Moreover, statements by PLN's CEO in November 2017⁵ indicate that around 40% of the total electricity currently produced by PLN is not being used.

These significant environmental and social issues present serious reputational risks to any financial institution associated with this project.

Risks due to the financial fragility of the EPC contractor, Doosan Heavy

There have been serious concerns raised about Doosan Heavy's financial state. The financial distress or collapse of Doosan Heavy would make it difficult to guarantee the quality of the project or even complete the project, which would shift much of that risk to other parties in the transaction.

A report from the Institute for Energy Economics and Finance Analysis pointed to signs of ailing health, such as the company's falling stock prices (almost 75% decline since 2017), its significant write-off of bad debt expenses totalling KRW 346 billion (US\$285.2 million), its consistent changing of auditors over the last five years, its heavy reliance on unusual adjustment items such as bad debt and impairment losses, warranties, valuation gains and losses, and its need to refinance debt worth US\$1 billion in the next two and a half years.⁶

In a recent Korean government mandated pre-feasibility study, the Korean Development Institute (KDI) noted that the EPC costs as quoted by Doosan Heavy were **25% lower than comparable projects**, significantly increasing the risk of cost overrun. KDI cited this as a further concern for the profitability of the project.

Risks due to continuously declining renewable energy costs

The most critical risk of the Jawa 9 and 10 project is the changing cost dynamics of the power sector. Carbon Tracker Initiative (CTI), a London based thinktank, has estimated that

³ 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>.

⁴ Melissa Brown, IEEFA, 'Perusahaan Listrik Negara (PLN): A Power Company Out of Step With Global Trends' (April 2018), online: <https://ieefa.org/wp-content/uploads/2018/04/PLN-A-Power-Company-out-of-Step-With-Global-Trends-April-2018.pdf>.

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

⁶ Melissa Brown, Ghee Peh, IEEFA, Doosan Heavy: Time for a Forensic Audit (September 2019), online: <http://ieefa.org/wp-content/uploads/2019/09/Doosan-Heavy-Time-for-a-Forensic-Audit-September-2019.pdf>.

building new renewables in Indonesia could be cheaper than building new coal power plants as early as 2020, and that it could be cheaper to build new renewable power plants than to operate existing coal power plants by 2027.⁷ This risks the project becoming a stranded asset, especially in an environment where the national utility, PLN, would be incentivized to alter conditions under the power purchase agreement.

Contradictions to Siemens' climate commitments

Involvement with the Jawa 9 and 10 coal power station would also contradict the credibility of Siemens' current position statement and actions on climate change⁸. Presumably, Siemens' plans to be carbon neutral by 2030 are backed by an intent to play a progressive role in addressing climate change, but supporting Jawa 9 and 10 would undermine the spirit and intent behind this action. Siemens' carbon footprint extends far beyond the boundaries of its own operations, and the projects you finance or otherwise become involved in could either enhance or, in this case, undermine your climate change commitments.

Siemens funding and supporting a coal power plant today 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.⁹ Jawa 9 and 10 is estimated by Global Coal Plant Tracker to produce 310 million tonnes of CO₂ over its operating lifetime, carbon emissions cannot be sustained if the global goals of the Paris climate agreement are to be met.

Jawa 9 and 10 presents a clear opportunity for Siemens to demonstrate that it is taking steps to reduce its emissions and demonstrate climate leadership.

Given the significant risks associated with Jawa 9 and 10 noted in this letter, we strongly urge you not to finance this coal power station. We would appreciate the opportunity to meet with you as soon as possible in order to further discuss this project. You can contact us at julien@marketforces.org.au.

Sincerely,

350.org Indonesia
Alliance of Ethical Shareholders Germany
Greenpeace
Market Forces
Solutions for our Climate (South Korea)
Trend Asia
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⁷ *Carbon Tracker*, Economic and financial risks of coal power in Indonesia, Vietnam and the Philippines (29 October 2018), online: <https://www.carbontracker.org/reports/economic-and-financial-risks-of-coal-power-in-indonesia-vietnam-and-the-philippines/>.

⁸ *Siemens*, 'Siemens is going carbon neutral by 2030' (8 August 2018), online: <https://press.siemens.com/global/en/feature/siemens-going-carbon-neutral-2030>.

⁹ *Climate Analytics*, Coal Phase Out, online: <https://climateanalytics.org/briefings/coal-phase-out/>.