

Briefing Paper

Problems with First Use of ADB Energy Transition Mechanism:

Despite so many problems with process and unresolved issues, how can Cirebon Unit 1 coal power plant in Indonesia see a proper early retirement?



Photo: Cirebon Coal Fired Power Plant Unit 1 (in distance) and Unit 2 (foreground, under construction) (WALHI (Indonesian Forum for the Environment) West Java, Oct. 2020)

February 2023

Fair Finance Guide Japan

Executive Summary

On November 14, 2022, it was announced that the Asian Development Bank (ADB, President Masatsugu Asakawa), Indonesia Investment Authority (INA, CEO Ridha D. M. Wirakusumah), Indonesia State Electricity Corporation (PLN, President Director Darmawan Prasodjo) and Cirebon Electric Power (CEP, President Director Hisahiro Takeuchi) had signed a memorandum of understanding (MOU) to jointly explore the early retirement of Unit 1 of the Cirebon Coal-fired Power Plant (Cirebon-1), using the ADB-led Energy Transition Mechanism (ETM).^{1, 2, 3}

ADB had already started a related technical assistance (TA) project in 2021,⁴ and in September 2021 issued its report on use of the ETM for the accelerated retirement of coal-fired power plants in Indonesia, the Philippines, and Vietnam.⁵ The report listed several candidates for assistance for accelerated retirement using the ETM, but Cirebon-1 was not on the list.

The first opportunity for the public to learn that Cirebon-1 was a candidate for accelerated retirement and that it would be the first project to utilize the ETM was when the above-mentioned MOU was signed (November 14, 2022) at the G20 summit hosted by Indonesia. For civil society, this news was completely unexpected.

Going forward, how should the ETM operate if it is to properly promote the early retirement of coal-fired power plants in developing countries? This paper provides a detailed examination of the process to select Cirebon-1 as the first project to utilize the ETM, raises a number of concerns, and concludes with recommendations.

Ensure transparency, information disclosure, and the participation of civil society

Parties concerned, particularly ADB and other ETM funders, need to recognize that this kind of closed-door process that excludes third parties could lead to the ineffective use of the ETM and ultimately end in failure. Excessive consideration for protecting “business confidentiality” could lead to errors in judgment in the face of limited information, and that could hinder the proper management of funds and implementation of projects. Civil society, particularly the public in countries receiving climate finance, has a great interest in how the limited public funds can be used effectively, in the face of a significant shortage of funds for climate finance. This includes any support for the early retirement of coal-fired power plants. Any failure to ensure the right to know and the meaningful participation of civil society makes it difficult for the public to monitor the use and operation of limited public funds, and this could in turn damage the credibility of the ETM itself. For the ETM to be used more effectively in projects other than Cirebon-1 as well, it is crucial to ensure that civil society can obtain information and provide comments and information at the early stages of stakeholder consultations and negotiations. In short, transparent processes must be ensured in order to enable meaningful participation in decision-making processes.

Avoid moral hazard, avoid using limited public funds to support private sector companies

To avoid the use of public funds to cover what should be the responsibility of private sector companies, caution is needed with regard to who should bear any costs that would arise if Cirebon-1 becomes a stranded asset. Japanese and South Korean companies account for 80% of CEP’s investors. With climate finance still being far less than what is needed, the ETM’s limited public finances should *not* be used to support large private companies. Moreover, no one can ignore the potential moral hazard of using public funds to compensate CEP for the proposed early retirement of Cirebon-1, even while private companies are still investing in and lending to the coal sector. Doing so would send the wrong message

¹ <https://www.adb.org/news/adb-indonesia-partners-sign-landmark-mou-early-retirement-plan-first-coal-power-plant-etm>

² <https://web.pln.co.id/media/siaran-pers/2022/11/kolaborasi-pln-adb-dan-ipp-siapkan-pendanaan-pensiun-dini-pltu-swasta-melalui-mekanisme-etm>

³ <https://www.marubeni.com/en/news/2022/release/00089.html>

⁴ <https://www.adb.org/projects/55024-001/main#project-pds>

⁵ <https://www.adb.org/sites/default/files/project-documents/55024/55024-001-tacr-en.pdf>

to the private sector, that the ETM can be used to evade or avoid responsibility if an investment becomes a stranded asset in the future. In fact, Cirebon Energi Prasarana (CEPR), the developer of Cirebon-2, currently under trial operation, will probably start commercial operation of the plant without even considering the risk of becoming a stranded asset, even as the serious impacts of the climate crisis become increasingly evident. The Indonesian government, ADB, and the developer supposedly agreed to the use of the ETM for the early retirement of Cirebon-1 because of an acknowledgment that its continued operation would further exacerbate climate change. If that was the basis of their decision, Cirebon-2 should not start commercial operation, as it too will exacerbate climate change.

Avoid extending the use of fossil fuels

With regard to the use of the ETM for the early retirement of Cirebon-1, details of schemes and measures are being left for later discussion, but it is unclear whether there is any intention to “repurpose” the power plant. Nevertheless, in its news release the day the MOU was signed, Marubeni (CEP’s largest shareholder) stated: “In the case where the four parties come to an agreement on certain conditions, such as the financing terms and conditions and measures to mitigate the potential impact due to the early retirement of the plant (such as the arrangement of an alternative power source), the Cirebon 1 Coal-Fired Power Plant is expected to be the pilot project to aim for the early retirement of the coal-fired power plant by applying this ETM.” With the mention of “the arrangement of an alternative power source” to mitigate impacts of early retirement, no one can deny that CEP may be considering co-firing with biomass, ammonia, or hydrogen. It is said that in order to achieve net zero by 2050, net zero must be achieved globally in electricity generation by 2040. Clearly, the use of biomass, ammonia, or hydrogen co-firing technologies for Cirebon-1 to extend the use of fossil fuels is inconsistent with the 1.5°C goal of the Paris Agreement. These co-firing technologies run counter to global measures to fight climate change. They should not be funded through the ETM.

Address existing environmental and social impacts of Cirebon-1, and comply with ADB safeguard policy

Small fishers and salt farmers whose livelihoods have been severely impacted by the construction and operation of Cirebon-1 have still been unable to restore their pre-project living standards, so the project is clearly failing to comply with the requirement of the ADB safeguard policy to “enhance, or at least restore, the livelihoods of all displaced persons in real terms relative to pre-project levels.” For any early retirement of Cirebon-1, corrective measures should also be discussed with a view to restore the livelihoods of people in the affected community, while also considering rehabilitation and restoration of the marine environment. Para. 47 of the safeguard policy statement states: “ADB will not finance projects that do not comply with its safeguard policy statement.” This means that if CEP as the client fails to meet the requirements set out in the safeguard policy, ADB cannot provide assistance. If ADB provides assistance in a situation that is not in compliance with the safeguard policy, ADB itself is in violation of the safeguard policy.

1. Outline of Cirebon coal-fired power plant project



Photo: Cirebon Unit 1 began commercial operation in 2012 (WALHI West Java, Oct. 2016)



Photo: Unit 2 (adjacent to Unit 1) is currently under trial operation (FoE Japan, Nov. 2022)


This is a coal-fired power generation project by independent power producers (IPPs), intended to supply electricity to the Java-Bali grid in Indonesia. It has been promoted mainly by public and private sector players from Japan, Korea and Indonesia.

Cirebon Electric Power (CEP), the developer of the Cirebon-1 project, which is now the first to utilize the Asian Development Bank (ADB)-led Energy Transition Mechanism (ETM), is a local entity established with investments from four companies (Marubeni, Korea Midland Power, Samtan, and Indika Energy). Construction of the 660 megawatt (MW) supercritical coal-fired power plant was contracted to Korea's Doosan Heavy Industries & Construction. CEP began commercial operation in July 2012, and under a power purchase agreement (PPA), it is supposed to sell electricity to the Indonesia State Electricity Corporation (PLN) for 30 years to 2042.

Unit 2 of the Cirebon coal-fired power plant (Cirebon-2) is currently under trial operation at a site adjacent to Unit 1. The project developer of Unit 2 is Cirebon Energi Prasarana (CEPR), which was established by JERA (a joint venture between Japan's Chubu Electric Power and Tokyo Electric Power) and IMECO (a subsidiary of Indika), along with the four investors in Unit 1. A consortium consisting of Mitsubishi Hitachi Power Systems (MHPS) (Japan), Toshiba (Japan), and Hyundai Engineering & Construction (Korea) signed an engineering, procurement, and construction (EPC) contract with CEPR to build an ultra-supercritical coal-fired power plant with a capacity of 1,000 MW. Commercial operation was slated to start in 2022, after which CEPR is to sell electricity to PLN for 25 years under a PPA.

Project finance for Units 1 and 2 was provided through co-financing by the Japan Bank for International Cooperation (JBIC) and the Export-Import Bank of Korea (KEXIM), which are both public financial institutions, plus three Japanese private banks (Mizuho Bank, Sumitomo Mitsui Banking Corporation, and MUFG Bank), plus the ING Bank (the Netherlands). Loan agreements have been signed between each project developer and the banks. For Unit 1, the amount is approx. US\$595 million out of the total project cost of approx. US\$850 million. For Unit 2, the amount is approx. US\$1.74 billion (of which four private banks including ING Bank account for approx. US\$590 million) out of the total project cost of approx. US\$2.18 billion. In addition, for Unit 1, JBIC and KEXIM provide political risk guarantees for portions that are co-financed by private banks. For Unit 2, KEXIM provides political risk guarantees for a portion of co-financing by private banks, and Nippon Export and Investment Insurance (NEXI) provides insurance for a portion of co-financing by private banks.

Table 1. Outline of Cirebon coal-fired power plant project

	Unit 1	Unit 2
Purpose	660 MW of supercritical (SC) coal-fired power generation	1,000 MW of ultra-supercritical (USC) coal-fired power generation
Site location	Cirebon Regency, West Java Province Project site: Approx. 50 hectares	Cirebon Regency, West Java Province Project site: 204.3 hectares
		
Total project cost	Approx. US\$850 million	Approx. US\$2.18 billion
Project developer	<p>CEP Local entity established by Marubeni (32.5%), Korea Midland Power (27.5%), Samtan (20%), and Indika Energy (20%)</p> <ul style="list-style-type: none"> • 30-year PPA signed with PLN • Supercritical boiler coal-fired power generation equipment procured from Korea's Doosan Heavy Industries & Construction (turnkey contract) 	<p>CEPR Local entity established by Marubeni (35%), Samtan (20%), IMECO (18.75%), Korea Midland Power (10%), JERA (10%), and Indika Energy (6.25%)</p> <ul style="list-style-type: none"> • 25-year PPA with PLN • Mitsubishi Hitachi Power Systems (MHPS) and Toshiba have delivered USC-compatible boilers, steam turbines, and other major equipment • South Korea's Hyundai Engineering & Construction was contracted for construction
Financial institutions, etc.	<p>Co-financed by the following banks Total loans US\$595 million</p> <ul style="list-style-type: none"> • JBIC (\$214 million) • KEXIM • Private banks (MUFG, Mizuho, Sumitomo Mitsui, ING [Netherlands]) <p>JBIC and KEXIM provide political risk guarantees for portions co-financed by private banks. NEXI provides insurance to CEP.</p>	<p>Co-financed by the following banks Total loans approx. US\$1.74 billion</p> <ul style="list-style-type: none"> • JBIC (approx. \$731 million) • KEXIM (approx. \$420 million) • Private banks (MUFG, Mizuho, Sumitomo Mitsui, ING) (approx. \$590 million) (French bank Crédit Agricole has withdrawn) <p>KEXIM provides political risk guarantees for a portion of co-financing by private banks. NEXI provides insurance for a portion of co-financing by private banks.</p>
Guarantee agency	Unknown	Guaranteed by Ministry of Finance (Indonesia)
Operation start	July 2012	Construction started in 2016, operation to start in 2022 (planned)

2. Summary of current status of ETM use

The Asian Development Bank (ADB) cited the following two main reasons to select Cirebon-1 for Energy Transition Mechanism (ETM) support:⁶

- (a) “It has the right combination of an interested owner, being a middle-aged plant, and having a financial structure that was suitable for refinancing.”
- (b) “The project company already has an active corporate social responsibility program, is engaged with the community, and is therefore suited to ensure the coal plant will be retired with strong just transition considerations.”

The four parties that signed the memorandum of understanding (MOU) are reportedly still negotiating details such as the number of years until early retirement of Cirebon-1 and loan terms. Meanwhile, the ETM's purpose, benefits, and scale of financing as currently envisaged by ADB are as follows.⁷

- (a) The aim is to shorten the term of the PPA between CEP and PLN (originally 30 years from 2012 to 2042).
- (b) If the actual operating period is calculated at 40 years (until 2052), but the plant is retired in 2037, that would mean a reduction of at least 15 years.
- (c) ADB estimates that reducing operations by 15 years could reduce greenhouse gas emissions by up to 30 million tons.⁸
- (d) The loan is expected to be between US\$250 million and 300 million.
- (e) The financing is expected to be a blend of concessional capital and capital from the ADB Private Sector Operations Department. The concessional funds include donor-supported funds to ADB's ETM Partnership Trust Fund (ETMPTF)⁹ and a portion of the Indonesia allocation from the Climate Investment Funds' (CIF) Accelerating Coal Transition (ACT) window.^{10, 11} Other financial entities and philanthropies¹² have expressed interest in participating in the transaction.
- (f) ADB will adopt a comprehensive approach to just transition, and support financing and implementation of mitigation measures for direct, indirect and induced impacts on workers (approx. 200 employees working at Cirebon-1) and local community.

The ACT Investment Plan (October 18, 2022)¹³ submitted by the Indonesian government to CIF includes an Appendix 11 “Program Concept - IPP CFPP early retirement program” containing a timetable as shown in the table below. No specific project is named in the document, but it is anticipated that discussions will proceed regarding Cirebon-1 with the aim of concluding a loan agreement by the end of the second quarter of 2023, in accordance with this timetable.

⁶ <https://www.adb.org/news/features/qa-adb-indonesia-partners-mou-first-coal-utility-retirement-etm> (Accessed Dec. 9, 2022. By the time this briefing paper was published, the webpage had been deleted and was no longer accessible.)

⁷ See Footnotes 1 and 6.

⁸ Reference: According to Cirebon Power's 2021 Sustainability Report, GHG emissions from Cirebon-1 in 2021 included 4,841,956.29 t-CO₂eq of CO₂ and 48.28 t-CO₂eq of methane.

(https://www.cirebonpower.co.id/wp-content/uploads/doc/COMPRESSED_ENG_SR_CIREBONPOWER_2021.pdf)

⁹ Established June 2022. The first donor partner was the Japanese government.

(<https://www.adb.org/what-we-do/funds/energy-transition-mechanism-partnership-trust-fund>)

¹⁰ On October 27, 2022, CIF announced a US\$500 million grant to Indonesia for a just transition from coal to clean energy.

(<https://www.cif.org/news/cif-set-fund-just-transition-clean-power-south-africa-and-indonesia>)

¹¹ The ADB reportedly asked CIF to contribute US\$50 million.

(<https://www.thejakartapost.com/business/2022/11/14/indonesia-adb-launch-first-coal-power-plant-retirement-deal.html>)

¹² Reference: Funding partners named under the ETM country platform launched by the Indonesian government in conjunction with the G20 summit on November 14, 2022 include the Bloomberg Philanthropies & ClimateWorks Foundation's Global Energy Transition Initiative, the British Government's MENTARI Program, and Global Energy Alliance for People and Planet, while funding sources include ADB, World Bank, Islamic Development Bank, CIF, HSBC, Standard Chartered Bank, and the Japan Bank for International Cooperation (JBIC).

(<https://www.kemenkeu.go.id/informasi-publik/publikasi/siaran-pers/Siaran-Pers-Indonesia-Luncurkan-ETM-Country>)

¹³ https://www.cif.org/sites/cif_enc/files/meeting-documents/CTF_TFC_IS_3_04_Indonesia_ACT_IP.pdf

Program Preparation Timetable¹⁴

Milestones	Expected Completion Date
MOU signing for Project 1	November 2022
Mandate and Due Diligence for Project 1	1st quarter 2023
CIF Trust Fund Committee Consideration of Proposed Program	2nd quarter 2023
Project 1 loan negotiations & final investment committee consideration	2nd quarter 2023
ADB Board consideration for Project 1	2nd quarter 2023 end
Loan signing for Project 1	2nd quarter 2023 end
Processing for future projects under program	TBD

Source: Asian Development Bank estimates

Additional information:

Appendix 11 of the ACT Investment Program submitted by the Indonesian government to CIF mentions no specific project names, but besides the timetable for the early retirement program for an IPP coal-fired power plant, the appendix also indicates the following information.

- This case is receiving the highest level of consideration not only from within the ADB but also among officials from the PLN, the Indonesian Ministry of Energy and Mineral Resources (MEMR) and the Ministry of Finance (MOF).
- There are plans to formulate a just transition plan for employment protection relating to the project. Associated costs are to be reflected in due diligence.
- Concessional funds under the CIF-ACT program will supplement ADB funds to maximize the shortening of the PPA period and the remaining operating years of the coal-fired power plant.
- Financing Plan for Program

Source	Amount (US\$ million)
ADB (a)	400
CIF-ACT	100
Commercial co-financing (b)	300
Total	800

Notes: (a) Financing amount to be confirmed. (b) To be confirmed at a later stage, based on market sounding.

¹⁴ Table from p. 110 of Footnote 13.

3. Utilization of the ETM: Issues that must be discussed

How should the Energy Transition Mechanism (ETM) operate if it is to properly promote the early retirement of coal-fired power plants in developing countries? This paper examines in detail the selection of Cirebon-1 as the first project to utilize the ETM, raises a number of concerns, and concludes with recommendations.

(1) Ensure transparency, information disclosure, and the participation of civil society

As stated at the beginning of the Executive Summary, the November 14, 2022 signing of a memorandum of understanding (MOU) between stakeholders regarding Cirebon-1 came as a sudden surprise for civil society. Civil society was not given any means to know in advance and any opportunity to participate in discussions about Cirebon-1 becoming the first project to utilize the ETM and even about the unit being a candidate for early retirement.

According to a media article (November 20, 2022) after the signing of the MOU,¹⁵ a proposal was made by Cirebon Electric Power (CEP) to the Indonesia State Electricity Corporation (PLN) in early October 2022 about the early retirement of Cirebon-1. Subsequently, discussions were held with Asian Development Bank (ADB) and the Indonesia Investment Authority (INA), and the four parties reached an agreement in less than a month and a half on using the ETM for the early retirement of Cirebon-1.

It may have been entirely intentional that the discussions on the early retirement of Cirebon-1 and the utilization of the ETM were carried out in such a non-transparent way by the four parties. Although the name of the project is not mentioned in the October 18, 2022 Accelerating Coal Transition (ACT) Investment Plan submitted by the Indonesian government to Climate Investment Funds (CIF), that impression of intentional secrecy may be justified, as the plan states that “ADB proceeded to sign non-disclosure agreements with IPPs and is pursuing discussions accordingly. The first proposed project in the program would involve a US\$300 million refinancing (US\$50m CIF ACT, US\$250m ADB) under a commitment to retire the CFPP several years before the end of the PPA (i.e., accelerated retirement).”¹⁶ In effect, this means that ADB has literally been engaging in closed-door negotiations with CEP under the cover of non-disclosure agreements.

Parties concerned, particularly ADB and other ETM funders, need to recognize that this kind of closed-door process that excludes third parties could lead to the ineffective use of the ETM, and ultimately end in failure. Excessive consideration for protecting “trade secrets” could lead to errors in judgment in the face of limited information, and that could hinder the proper management of funds and implementation of projects. Civil society, particularly the public in countries receiving climate finance, has a great interest in how limited public funds can be used effectively, in the face of a significant shortage of funds for climate finance. This includes any support for the early retirement of coal-fired power plants. Any failure to ensure the right to know and the meaningful participation of civil society makes it difficult for the public to monitor the use and operation of limited public funds, and this could in turn damage the credibility of the ETM itself.

In fact, there are already negative repercussions of the closed process. For example, as mentioned above in “2. Summary of current status of ETM use,” ADB cited two main reasons why Cirebon-1 was selected for ETM support:¹⁷ “The project company already has an active corporate social responsibility program, is engaged with the community, and is therefore suited to ensure the coal plant will be retired with strong just transition considerations.” In this regard, as indicated in the Appendix to this paper, “Major unresolved environmental and social issues, public objections, and complaints relating to the Cirebon coal-fired power plant project,” there are clearly issues that need to be examined, such as whether or not CEP has an effective CSR program and there is a positive engagement with the local community, which is vociferously opposed to the project. The conclusion that the company “is therefore suited to ensure the coal plant will be retired with strong just transition considerations” is based on

¹⁵ <https://majalah.tempo.co/read/laporan-khusus/167464/untung-rugi-pensiun-dini-pltu-cirebon-1>

¹⁶ Footnote 13, p. 31.

¹⁷ See Footnote 6.

limited information and perspectives, is premature and unjustified, and should be questioned. If information had been provided to civil society earlier, a broader discussion on these points might have been possible before reaching a conclusion.

In addition, a “financial structure that was suitable for refinancing” was cited as a reason why Cirebon-1 was selected for ETM support, but no numerical data or basis has been provided to support the conclusion about the so-called suitable financial structure. Public funds are being offered, but civil society remains unable to judge whether these conclusions are valid.

ADB states that “throughout the ETM process, ADB is prioritizing the importance of safeguards and a just transition, to provide opportunities for participation at every stage of this work to help mitigate any environmental and socio-economic consequences.”¹⁸ Obviously, it must be aware of the importance of securing opportunities for participation. Going forward, leading up to the conclusion of a loan agreement at the end of the second quarter of 2023, in the process of discussing specific schemes and measures for the early retirement of Cirebon-1 (including the number of years to reduce in the operation of Cirebon-1, and financing conditions, etc.), as ADB itself recognizes, it is of utmost importance to ensure an open process in which the opinions of civil society are properly reflected on many dimensions, including points (2) to (4) below.

ADB is in talks with the owners of several coal-fired power plants in Indonesia and the Philippines, but is purportedly unable to disclose detailed information at this time due to non-disclosure agreements.¹⁹ However, in order for the ETM to be used more effectively not only for Cirebon-1 but for other cases as well, it is crucial to allow civil society to obtain information and provide comments and information at an early stage of stakeholder consultations and negotiations. In short, transparent processes must be ensured in order to enable meaningful participation in decision-making processes.

(2) Avoid moral hazard, avoid using limited public funds to support private sector companies

ADB acknowledges that long-term power sales contracts are one of the main obstacles to the decommissioning of coal-fired power plants in Southeast Asia,²⁰ and this is also evident in Indonesia.

The Java-Bali power grid is the largest market for the Indonesian state-owned power company (PLN), and it has been projected to have a reserve margin of 36% to 59% between 2021 and 2030.²¹ Coal accounts for 58% of the grid’s energy mix (22,479 megawatts (MW) of installed capacity in 2021),²² so promoting efforts toward the early retirement of coal-fired power plants serving the Java-Bali power grid should be seen as “killing two birds with one stone” from the perspective of climate actions and dealing with an excess power supply.

However, even if power plants (including Cirebon-1) owned by independent power producers (IPPs) that account for about 40% of the coal-fired power plants in the Java-Bali grid (9,059 MW of installed capacity in 2021)²³ were retired early, PLN would still be obligated to pay huge sums to the IPPs under take-or-pay and long-term power purchase agreements (PPAs). This means that the Indonesian government alone bears the risk of being stuck with “stranded assets.” The Indonesian government’s ACT Investment Plan (October 18 2022)²⁴ submitted to CIF portrays this situation as follows: “CFPPs owned by IPPs operate with strong, bankable long-term PPAs with fixed tariffs ensuring a fixed return to sponsors, and do not suffer from ‘stranding’ pressure.”

With regard to the issue of only PLN or the Indonesian government bearing the risks, research institutes and other voices as well have pointed out the need for PLN to renegotiate burden-sharing with IPPs and to postpone the start-up of new coal-fired power plants, and the need for IPPs and investors who benefit

¹⁸ <https://www.adb.org/news/features/why-adbs-etm-prioritizing-safeguards-just-transition>

¹⁹ See Footnote 6.

²⁰ <https://www.adb.org/sites/default/files/project-documents/55024/55024-001-tcr-en.pdf>

²¹ Electricity Supply Business Plan of the Indonesian state-owned utility PLN (Rencana Usaha Penyediaan Tenaga Listrik, or RUPTL, 2021-2030) (<https://web.pln.co.id/statics/uploads/2021/10/ruptl-2021-2030.pdf>)

²² See Footnote 21.

²³ See Footnote 21.

²⁴ Footnote 13, p. 30.

from the projects to be involved in solving the problems confronting Indonesia's energy transition.²⁵ From this perspective, one could say it is a welcome thing that CEP, an IPP, is participating in negotiations toward the early retirement of Cirebon-1.

Meanwhile, with regard to *who* should bear any costs that would arise if Cirebon-1 becomes a stranded asset, careful attention is needed so that public funds are not used to cover what should be the responsibility of the private sector. As mentioned above, CEP's investors are Marubeni (Japan, 32.5%), Korea Midland Power (South Korea, 27.5%), Samtan (South Korea, 20%), and Indika Energy (Indonesia, 20%), so Japanese and South Korean companies account for 80% of the investment. Indika Energy happens to be one of Indonesia's top energy companies. As there is already a major shortage of climate finance, the use of limited public funds from the ETM to support large private companies should be avoided. It should also be avoided considering the possibility of causing moral hazard for other companies (they may feel an incentive to increase exposure to risk because they know they might not bear the full costs of that risk).

Below are some of the costs that would be involved if Cirebon-1 were to become a stranded asset:

- (a) costs to address existing environmental and social impacts related to Cirebon-1
- (b) costs to achieve a just transition for employment
- (c) CEP's foregone profits (revenues) due to early retirement of the power plant
- (d) costs such as remaining debt to CEP lenders (if the payback period for the construction of Cirebon-1 is not completed)

Item (a) is described in detail below in (4), but CEP should take full responsibility. Regarding item (b), CEP should assume a commensurate amount of responsibility, given that consideration for those that lose employment was probably included in the existing plan for the closure of the power plant. Regarding item (c), CEP should assume a commensurate amount of responsibility for stranded asset risk, but careful attention should be paid to the level of loss that CEP would incur, as media reports have said that CEP will be compensated with concessional funds.²⁶ According to ADB research,²⁷ the average operating cost of a PLN-owned coal-fired power plant is 653.12 rupiah/kWh (4 US cents/kWh), while the actual rates being paid to IPPs were 7–10 US cents/kWh, based on recent bids. In other words, it is highly probable that compensation to CEP is calculated at the premium rate for IPPs. A serious discussion is needed as to whether it is appropriate to offer assistance from limited public funds at such generous levels. Regarding item (d), discussions should take place, including the issue that lenders should assume a commensurate amount of responsibility for stranded asset risk.

Information currently available to civil society is that refinancing in the range of US\$250 million to 300 million will be provided to CEP, but it is unclear how much of such financing on this scale would be used for which portion of items (a) to (d) above, for example, and whether other funds would also be provided separately. Consultations must be conducted through an open process regarding *who* should take *what degree* of responsibility and *for what*, so that private companies are not compensated using limited public funds for what should be their own responsibility.

Moreover, no one can ignore the potential moral hazard of using public funding to compensate CEP for the proposed early retirement of Cirebon-1, even while private companies are still investing in and lending to the coal sector. Doing so would send the wrong message to the private sector, that the ETM can be used to evade or avoid responsibility if an investment becomes a stranded asset in the future. In fact, Cirebon Energi Prasarana (CEPR), the developer of Cirebon-2, currently under trial operation, will probably start commercial operation of the plant without even considering the risk of becoming a stranded asset, even as the serious impacts of the climate crisis become increasingly evident.

The Indonesian government, ADB, and the developer supposedly agreed to the use of the ETM for the early retirement of Cirebon-1 because of an acknowledgment that its continued operation would further

²⁵ <https://ieefa.org/ieefa-indonesia-pln-in-crisis-time-for-independent-power-producers-to-share-the-burden/> ; <https://ieefa.org/ieefa-playing-with-matches-who-should-take-responsibility-for-plns-financial-mess/> ; <https://ieefa.org/resources/indonesia-wants-go-greener-pln-stuck-excess-capacity-coal-fired-power-plants>

²⁶ <https://www.thejakartapost.com/business/2022/11/14/indonesia-adb-launch-first-coal-power-plant-retirement-deal.html>

²⁷ Footnote 5, p. 77.

exacerbate climate change. If that was the basis of their decision, Cirebon-2 should not start commercial operation, as it too will exacerbate climate change.

(3) Avoid extending the use of fossil fuels

According to ADB, the ETM is “a scalable, collaborative initiative developed in partnership with developing member countries (DMCs) that will leverage a market-based approach to accelerate the transition from fossil fuels to clean energy.”²⁸ One of the activities that can receive funding from the ETM Partnership Trust Fund (ETMPTF) is “reducing greenhouse gas emissions from coal-fired power plants through early retirement or repurposing of such plants for clean energy.”²⁹

However, civil society groups have already expressed concern that the implicit interpretation of “repurposing” includes not only the conversion to renewable energy such as solar and wind, but also the possibility of repurposing existing coal-fired power plants to use technologies for co-firing with biomass, ammonia, and hydrogen. In this regard, Japan’s Ministry of Finance responded to NGO questions in November 2022 that it is still discussing whether or not to include “repurposing” using co-firing technologies as eligible for ADB’s support to the ETM.³⁰

Such co-firing technologies have been criticized for imposing “false solutions” that fail to reduce GHG emissions, and in fact are loaded with risks of economic and technical uncertainty.^{31, 32, 33} The Japanese government, a particular promoter of such measures, has been the object of criticism from Indonesia and other Asian countries,³⁴ and groups have submitted a petition calling on Japan to immediately stop promoting false solutions such as co-firing technologies that will prolong the lifespan of fossil energy in the name of an energy transition.³⁵ From the perspective that existing coal-fired power plants are already causing serious environmental and social problems, the petition also states that biomass, ammonia, and hydrogen co-firing technologies should be avoided as they prolong the lifespan of fossil fuel energy.

With regard to the use of the ETM for the early retirement of Cirebon-1, details of schemes and measures are being left for later discussion, but it is unclear whether there is any intention to “repurpose” the power plant. Nevertheless, in its news release³⁶ the day the MOU was signed, Marubeni (CEP’s largest shareholder) stated: “In the case where the four parties come to an agreement on certain conditions, such as the financing terms and conditions and measures to mitigate the potential impact due to the early retirement of the plant (such as the arrangement of an alternative power source), the Cirebon 1 Coal-Fired Power Plant is expected to be the pilot project to aim for the early retirement of the coal-fired power plant by applying this ETM.” With the mention of “the arrangement of an alternative power source” to mitigate impacts of early retirement, no one can deny that CEP may be considering co-firing with biomass, ammonia, and hydrogen.

It is said that in order to achieve net zero by 2050, net zero must be achieved globally in electricity generation by 2040.³⁷ Clearly, the use of biomass, ammonia, or hydrogen co-firing technologies for Cirebon-1 to prolong fossil fuel use is inconsistent with the 1.5°C goal of the Paris Agreement. These co-firing technologies run counter to measures to address global climate change and should not be supported through the ETM.

²⁸ <https://www.adb.org/what-we-do/energy-transition-mechanism-etm>

²⁹ See Footnote 9.

³⁰ The 79th Regular Consultation between the Japan’s Ministry of Finance and NGOs was held on November 4, 2022.

³¹ Kiko Network, “Hydrogen and ammonia co-firing in the power sector: Japan is choosing to expand fossil-fuel extraction and perpetuate coal and LNG,” Oct. 2021.

https://www.kiconet.org/wp/wp-content/uploads/2022/01/posision-paper-hydrogen-ammonia_english_revised220121.pdf

³² Robert W. Howarth, Mark Z. Jacobson, “How green is blue hydrogen?”, Aug. 12, 2021

<https://onlinelibrary.wiley.com/doi/full/10.1002/ese3.956>

³³ IEA, “Global Hydrogen Review2021”, Nov. 2021

<https://iea.blob.core.windows.net/assets/5bd46d7b-906a-4429-abda-e9c507a62341/GlobalHydrogenReview2021.pdf>

³⁴ <https://foejapan.org/issue/20220926/9400/>

³⁵ <https://foejapan.org/issue/20221101/9992/>

³⁶ See Footnote 3.

³⁷ International Energy Agency (IEA) Report (May 2021) (<https://www.iea.org/reports/net-zero-by-2050>)

(4) Address existing environmental and social impacts of Cirebon-1, and comply with ADB safeguard policy

ADB has emphasized that the ETM is prioritizing safeguards as well as a just transition. It has stated that “The goal of safeguards and just transition is to mitigate any environmental and socio-economic impacts and ensure nobody is left behind,” and “ADB is conducting consultations with various stakeholders, especially local communities, to ensure they are part of this process.”³⁸

Looking at the documents and statements made by ADB to date, one gets the impression that considerable attention is being paid to mitigating the impact of changes in “employment, supply chains, and infrastructure” resulting from the early retirement of coal-fired power plants.³⁹ In fact, regarding Cirebon-1, ADB has stated that “Cirebon-1 employs about 200 people. ADB is committed to adopting a comprehensive approach to just transition under ETM that provides support for workers, communities, and regions impacted by the associated projects. ADB will work with the Government of Indonesia, PLN, and CEP to assess the impact on the livelihoods of workers and local communities. CEP will mitigate direct impacts on workers, local vendors, and parties. In consultation with all key stakeholders, ADB will work with the government and relevant municipalities to support financing and implementation of mitigation measures for direct, indirect, and induced impacts on the local community and other parties.”⁴⁰

Meanwhile, as indicated in the “Appendix: Major unresolved environmental and social issues, public objections, and complaints relating to the Cirebon coal-fired power plant project,” there is still the need to address the long-standing and existing environmental and social impacts caused by the construction and operation of the Cirebon-1 power plant, such as air pollution and impacts on various livelihoods. Despite that, neither ADB nor any stakeholder has yet made any mention whatsoever of how, as part of the ETM process, any assessment and response would be done for existing environmental and social impacts, as well as any environmental and social impacts that will occur until the early retirement of the power plant is completed.

The crucial point here is that the ADB safeguard policy (2009) should be applied to all ADB-supported projects that utilize the ETM.⁴¹ This can be confirmed in para. 48 of the safeguard policy statement: “This safeguard policy statement applies to all ADB-financed and/or ADB-administered sovereign and non-sovereign projects, and their components regardless of the source of financing....” Therefore, if ADB is to support the early retirement of Cirebon-1 by utilizing the ETM, there is a requirement for compliance with what is stated in the safeguard policy, including provisions on environment, involuntary resettlement, information disclosure, consultation and participation, monitoring and reporting, and grievance redress mechanisms.

In addition, the safeguard policy includes provisions relating to “existing facilities,” and its requirements must be satisfied in particular with regard to the environmental and social impacts that have been caused by and continue to occur due to the construction and operation of Cirebon-1. The main content of the provisions relating to “existing facilities” is as follows.

- 1 Safeguard Requirements 1 (Environment): D (Requirements), 1 (Environmental Assessment), para. 10
 - When the project involves existing activities or facilities, relevant external experts will perform environmental audits to determine the existence of any areas where the project may cause or is causing environmental risks or impacts.
 - A typical environmental audit report includes the following major elements: (i) executive summary; (ii) facilities description, including both past and current activities; (iii) summary of national, local, and any other applicable environmental laws, regulations, and standards; (iv) audit and site investigation procedure; (v) findings and areas of concern; and (vi) corrective action plan that provides the appropriate corrective actions for each area of concern, including costs and schedule.

³⁸ See Footnote 18.

³⁹ See Footnote 18.

⁴⁰ See Footnote 6.

⁴¹ <https://www.adb.org/sites/default/files/institutional-document/32056/safeguard-policy-statement-june2009.pdf>

- 2 Safeguard Requirements 4 (Special requirements for different finance modalities): F (Existing Facilities), para. 12
- For projects involving facilities and/or business activities that already exist or are under construction, the borrower/client will undertake an environment and/or social compliance audit, including on-site assessment, to identify past or present concerns related to impacts on the environment, involuntary resettlement, and Indigenous Peoples. The objective of the compliance audit is to determine whether actions were in accordance with ADB's safeguard principles and requirements for borrowers/clients and to identify and plan appropriate measures to address outstanding compliance issues.
 - Where noncompliance is identified, a corrective action plan agreed on by ADB and the borrower/client will be prepared. The plan will define necessary remedial actions, the budget for such actions, and the time frame for resolution of noncompliance.
 - The audit report (including corrective action plan, if any) will be made available to the public in accordance with the information disclosure requirements of the Safeguard Requirements 1–3. For environment category A projects involving facilities and/or business activities that already exist or are under construction, the borrower/client will submit the audit report to ADB to disclose on ADB's website at least 120 days prior to ADB Board approval.

Small fishers and salt farmers whose livelihoods have been severely impacted by the construction and operation of Cirebon-1 have still been unable to restore their pre-project living standards (see Appendix), so the project is clearly failing to comply with the requirements of the safeguard policy to “enhance, or at least restore, the livelihoods of all displaced persons in real terms relative to pre-project levels” (Safeguard Requirements 2, Involuntary Resettlement, para. 6). For any early retirement of Cirebon-1, corrective measures should also be discussed with a view to restore the livelihoods of people in the affected community, while also considering rehabilitation and restoration of the marine environment.

Note that para. 47 of the safeguard policy statement says “ADB will not finance projects that do not comply with its safeguard policy statement,” so if CEP as the client fails to meet the above-stated requirements, ADB cannot provide assistance. If ADB provides assistance in a situation that is not in compliance with the safeguard policy, ADB itself is in violation of the safeguard policy.

ADB has stated: “Ultimately, ADB believes ETM will be not only good for reducing greenhouse gas emissions and combating climate change, but, through the work of safeguards and just transition, it will open up opportunities with the potential to make the economies of Asia and the Pacific more equitable, more sustainable, and more inclusive.”⁴² If it is going to “ensure nobody is left behind,” ADB must listen to the voices from the local communities that have been struggling with the environmental and social impacts of Cirebon-1 for more than 15 years since construction began, and ensure that appropriate responses are taken within the ETM process.

4. Conclusion

Asian Development Bank (ADB) has stated that it is currently in discussions with owners of several coal-fired power plants in Indonesia and the Philippines about early retirement of the plants using the Energy Transition Mechanism (ETM).⁴³ How can limited public funds be utilized under the ETM to effectively achieve the early retirement of Cirebon-1? This is a very important process, a test case for other private-sector projects that might utilize the ETM in the future.

According to the program preparation timetable shown above, the loan is scheduled to be signed at the end of the second quarter of 2023. An ADB Board of Directors meeting is expected to occur before that, but environmental documentation should be posted on the ADB website *at least 120 days prior to that date*. Going forward from this point, active discussions should take place under an open and transparent process. Closed negotiations among insiders, as have occurred so far, cannot be expected to achieve an effective early retirement or just transition at Cirebon-1, a project that has been the target of multiple complaints directed at the financial institutions funding it.

⁴² See Footnote 18.

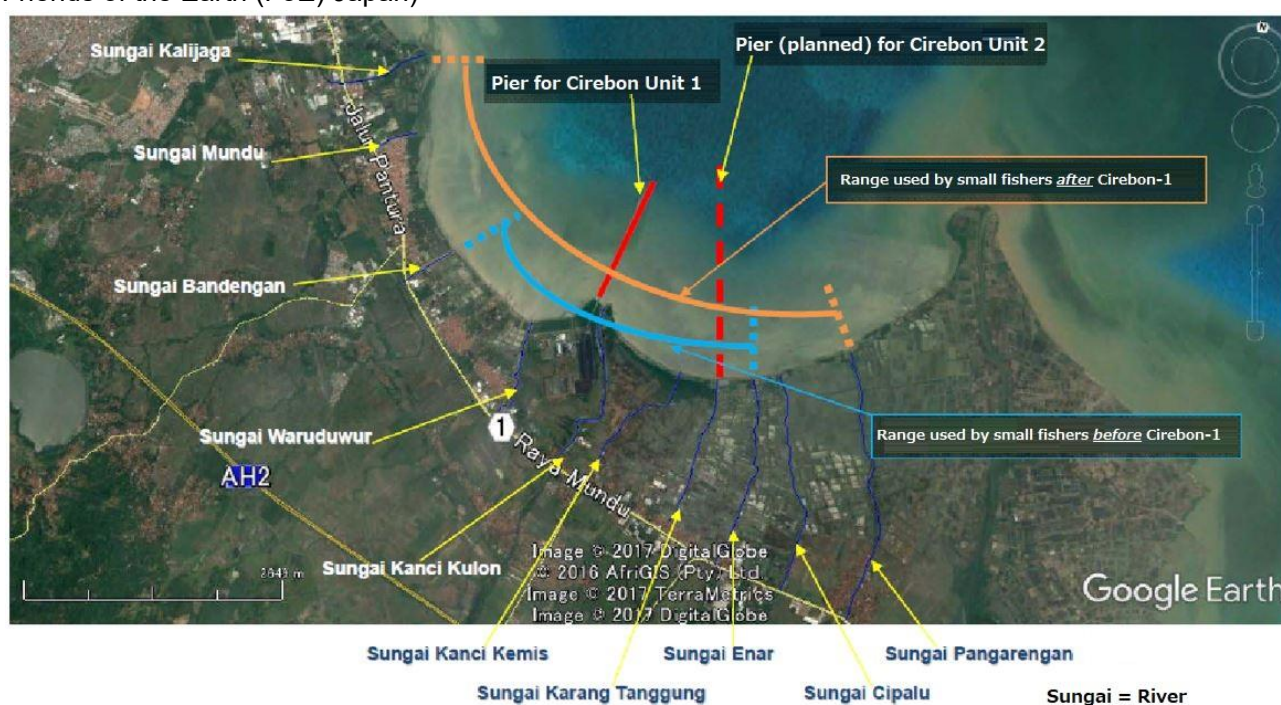
⁴³ See Footnote 6.

Appendix: Major unresolved environmental and social issues, public objections, and complaints relating to the Cirebon coal-fired power plant project⁴⁴

(1) Livelihood impacts, lack of proper compensation and measures to restore livelihoods

At the site where the Cirebon Unit 1 power plant and jetty were constructed, tiny *rebon* shrimp (after which the area was named as “Cirebon”) were previously caught in abundance to produce a local specialty known as *terasi* (fermented shrimp paste). For small-scale fishers using traditional methods to catch shrimp and fish with nets and no boats while wading in the shallow waters along the shore, the shoreline area where Unit 1 now stands was a very important area, a treasure trove of sea life rich in biodiversity. At low tide, many species of shellfish and other small sea life could be harvested from the mud of shoreline areas. It was a place for young and old to go every day for fresh food for the day’s meals.

Figure 1. Map of Cirebon coal-fired power plant project and their impacts on small fishers (Prepared by Friends of the Earth (FoE) Japan)



However, the area became the site for the construction of Unit 1, and some prime areas were lost while local access to others was restricted. After the coal power plant started operating, fishers wading in the shallows could feel the flow of thermal water discharged into the sea from the Unit 1 facility. In some areas, the fishers need to walk further due to reduced catches in the coastal areas (see Figure 1).⁴⁵ However, they say that even if they expand their fishing to areas further away, their catches are below what they were before the Unit 1 project, resulting in livelihood hardship.

The community around the power plant was also engaged in salt production during the dry season, and the salt produced here was once known for its high quality. However, after the construction of Unit 1, the quality of the salt produced in the nearby salt pans deteriorated. The color of some of the local salt pans appears darkened or black. Although the source has not been confirmed, whether it is coal dust from the exposed coal storage site or fly ash from the plant’s exhaust stack, the salt farmers now have to wash the salt they produce in order to remove the black particles. Salt production now takes more time and the

⁴⁴ Reference: Fair Finance Guide Case Study Report No. 11: “Indonesian Coal-fired Power Exposed to Corruption - Cirebon coal-fired power project: problems on environment, human rights, and corruption, and banks’ non-compliance with international norms” (original in Japanese, summary in English) (<https://fairfinance.jp/bank/casestudies/cirebon2019/>)

⁴⁵ Reference: February 16, 2019. Korea Broadcasting System (KBS) (<http://mn.kbs.co.kr/mobile/news/view.do?ncd=4140203>) (Accessed Dec. 15, 2022).

quality of salt products is lower, resulting in reduced income for the salt farmers.⁴⁶



Photo: Salt pans near Unit 1. Dust ended up mixed in with salt after the power plant started operating, with impacts on local incomes. (FoE Japan and WALHI, August 2015)

As part of corporate social responsibility, the project developer has provided residents with livelihood support programs such as fishing nets and aquaculture fish, as well as vocational training. However, the provision of fishing nets is obviously not an effective solution, as the number of fish is declining. In addition, although several attempts have been made with catfish farming programs, residents report that no net profits have been generated. What has been reported to date by residents such as small fishers and salt farmers regarding the ongoing impacts on livelihoods mentioned above could be seen as evidence that effective measures have not been taken to improve or restore livelihoods and living standards.

Residents have voiced concerns that the construction and operation of Unit 2 (larger than Unit 1) will worsen the ongoing impacts on livelihoods. In fact, small fishers, who do not have fishing boats, have continued to fish by wading in the coastal shallows, but have already begun to be negatively affected by the construction of jetty facilities for Unit 2. However, not only did the environmental impact assessment (EIA) fail to adequately assess impacts on livelihoods, to this point, there have been no proposals or actions for adequate and effective compensation and livelihood recovery measures based on the experiences and lessons of Unit 1 to enable residents engaged in small-scale fisheries and salt production, etc., to reliably improve or at least recover their living standards. Residents have pointed out that what small fishers need is a healthy coastal environment for fishing activities, not a CSR program like what is being offered by the project developer.⁴⁷

⁴⁶ See Footnote 45.

⁴⁷ Reference: Letter from citizen group to JBIC (dated Nov. 5, 2018)
(<http://www.foejapan.org/aid/jbic02/cirebon/pdf/181105.pdf>)



Photo: Small-scale fishing sites are limited by jetty construction for Unit 1, and catch volumes have dropped due to thermal discharge from the plant, etc. Small fishers' livelihoods have suffered. (FoE Japan, May 2017)



Photo: Small fishers fish along the shore without using boats. They are already affected by Unit 2 jetty facility construction (FoE Japan, Mar. 2019)

(2) Concerns about health impacts of dust/particulates, and failure to use the best available technology (BAT) in pollution control

Residents around the site of Unit 1 have pointed out that, depending on wind direction, fly ash from the power plant's exhaust stack flies from the area around the project site toward individual houses and public facilities such as the elementary school. They have also reported an increase in respiratory illnesses such as acute upper respiratory tract infections (in Indonesian, *infeksi saluran pernapasan akut*, or ISPA) near the project site.⁴⁸

The EIA for the Unit 2 project noted that ISPA was the most common ailment in the study area in the three preceding years (2012–2014), and indicated that residents of the village of Kanci Kulon in Astanajapura district, where the Unit 1 power plant is located, had more severe coughing than residents of other villages.⁴⁹ Residents have voiced concerns that the construction and operation of Unit 2, which is larger than Unit 1, will result in an increase in ISPA and other respiratory disease patients in the vicinity of the project.

According to research data from FoE Japan (Table 2), BAT for air pollution prevention, already being used at coal-fired power plants in Japan for more than 30 years, was not installed at Unit 1 of the Cirebon coal-fired power plant. The table also shows that BAT is not being used at Unit 2. As a result, Unit 1 continues to have a negative impact on the residents around the project site, and the air pollution control technology planned for the Unit 2 power plant will not be significantly better than at Unit 1, so residents' concerns about air pollution and health impacts have not been dispelled. The project developers have described these power plants as using "clean coal technology,"⁵⁰ but in reality, Indonesian government regulatory standards are lenient, and due to poor governance, these plants are using a double standard. BAT equivalent to what is used in Japan is not being used at Cirebon. In other words, Japan is promoting "pollution exports" whereby the consideration given to the health of the local residents in Cirebon is less than what is applied in Japan.

⁴⁸ Reference: Residents' written statement of objections submitted to JBIC regarding issues with Unit 1 (dated Nov. 8, 2016). (<http://www.foejapan.org/aid/jbic02/cirebon/161110.html>)

⁴⁹ See 2.1.6.1 (Kasus Penyakit) in the EIA for Unit 2.

⁵⁰ <https://www.cirebonpower.co.id/cirebon-power-reduced-the-emission-of-pltu/> (Accessed Dec. 16, 2022).

Table 2. Comparison of environmental technologies: Coal-fired power plants in Cirebon (Indonesia) and Japan⁵¹

Plant	Cirebon (Indonesia)		Existing coal-fired power plants (Japan)			
	Unit 2	Unit 1	Isogo New 2	Isogo New 1	Hekinan-5	Hekinan-1
Operator	CEPR	CEP	J-POWER	J-POWER	Chubu Electric	Chubu Electric
Location	Indonesia	Indonesia	Kanagawa Prefecture	Kanagawa Prefecture	Aichi Prefecture	Aichi Prefecture
Capacity (MW)	1000	660	600	600	1000	700
Start of operation	2022 (planned)	July 2012	July 2009	April 2002	November 2002	October 1991
Efficiency measures (steam conditions)	Ultra-super critical	Super-critical	Ultra-super critical	Ultra-super critical	Ultra-super critical	Super-critical
Stack height (m)	200	215	200	200	200	200
Mitigation measure against SO _x	WLST	CF or FGD	DFGD	DFGD	FGD (type unknown)	FGD, etc. (type unknown)
Emission concentrations (ppm)	SO ₂ = 221 (SO ₂ = 625 mg/Nm ³)	SO ₂ = 227 (SO ₂ = 649 mg/Nm ³)	10	20	25	50 (28) (parentheses) = after 2002 upgrade
Mitigation measure against NO _x	LNB	LNB	SCR/LNB/TSC	SCR/LNB/TSC	SCR/LNB/TSC	SRC, etc.
Emission concentrations (ppm)	NO ₂ = 251 (NO _x = 510 mg/Nm ³)	NO ₂ = 404 (NO _x = 829 mg/Nm ³)	13	20	15	45 (30)
Mitigation measure against PM	ESP	ESP	ESP	ESP	ESP	ESP
Emission concentrations (mg/Nm ³)	50	29	5	10	5	10 (5)

DFGD: Dry flue gas desulfurization system SCR: Selective catalytic reduction
 FGD: Desulfurization unit (type unknown) LNB: Low NO_x burner
 CF: Compliance fuel (without equipment) TSC: Two-stage combustion method
 WLST: Wet limestone FGD ESP: Electrostatic precipitator (unspecified)

⁵¹ Data sources for each power plant: Cirebon Unit 2 (EIA, Mar. 2016), Cirebon Unit 1 (EIA, Apr. 2008), Isogo New Units 2 and 1 (J-POWER annual report, 2009), Hekinan Units 5 and 1 (CCT Journal, Center for Coal Utilization, Japan, May 2002).

(3) Objections and complaints from residents

According to Cirebon Regency residents, land clearing work for the construction of Unit 1 had already begun in the second half of 2007, even before the environmental permit was issued in April 2008. Residents say they had not received any prior information about the project via consultation meetings or other channels. They first learned about the project when heavy machinery and trucks suddenly appeared at the site. That was the impetus for them to launch a campaign in the second half of 2007 to oppose Unit 1.

Residents have continued to raise concerns about the negative impacts of the Unit 1 project, including livelihood loss or damage, environmental destruction, negative health impacts, intimidation in land expropriation, and community divisions. They held numerous protests against the construction of Unit 1, and repeatedly requested the Cirebon Regency local government, CEP (project developer) and others, to cancel the project. However, the voices of the residents against the project were ignored, and commercial operation of Unit 1 began in 2012.

In 2016, well after Unit 1 had started operating, residents submitted a written statement of objections, pointing out that the Japan Bank for International Cooperation (JBIC) was not complying with the monitoring provisions of the JBIC Guidelines for Confirmation of Environmental and Social Considerations (JBIC Guidelines), and that living standards and income opportunities of the affected residents had not improved or at least been restored.^{52, 53}



Photo: Residents and local NGOs submitted a statement of objections about Unit 1 to the JBIC Jakarta Office, then protested in front of the Japanese Embassy. They called for the closure of Unit 1, resolutions to existing problems, and for JBIC and the private bank consortium not to finance the construction of a new power plant. (FoE Japan, Nov. 10, 2016)



Photo: Representatives who submitted a letter to JBIC on objections to Unit 2 are seen here with a JBIC official at the building of Japan's House of Councillors (upper house of National Diet) in Tokyo. (FoE Japan, May 24, 2017)

A consultation was held in 2015 about a construction plan for Unit 2, where some residents first learned about the plan. The construction and operation of Unit 1 severely affected livelihoods such as small-scale fishing, shellfish harvesting, and salt farming. Residents had already begun to feel health impacts, too, due to Unit 1. Thus, some residents once again voiced their opposition to the construction of Unit 2, and in December 2016, filed an administrative lawsuit (targeting the local government) demanding the cancellation of the environmental permit for the Unit 2 project. In April 2017, a court judgment was issued in favor of the local residents. The bank consortium that had signed loan

⁵² See Footnote 48.

⁵³ Reference: Written opinion by Japanese environmental organizations on the Report of the Examiner for JBIC Environmental Guidelines (Apr. 18, 2017) (<https://www.foejapan.org/aid/jbic02/cirebon/170418.html>)

agreements for the Unit 2 project just one day before the judgment had no choice but to refrain from disbursing the loan. Despite this, CEPR (project developer) continued with land preparations and started full-scale construction based on a new environmental permit that had been issued (in July 2017) without the knowledge of the residents. In November 2017, the bank consortium also decided to disburse the first loan installment for the Unit 2 project.

Meanwhile, after the April 2017 court judgment to revoke the environmental permit, a group of residents submitted their objections to JBIC in May 2017 relating to non-compliance with the JBIC Guidelines.^{54, 55} In May 2017, Indonesian and Japanese environmental groups, representing residents opposed to the Unit 2 project, raised concerns to Japan's OECD National Contact Point (Japan's NCP) about Marubeni and JERA's non-compliance with the OECD Guidelines for Multinational Enterprises.^{56, 57} Later, in April 2021, Indonesian civil society organizations submitted a complaint to ING Bank regarding loans for Units 1 and 2, for having caused environmental damage, human rights violations, and corruption issues.⁵⁸

Table 3. Main Chronology of Cirebon coal-fired power plant project

Unit 1	
August 20, 2007	CEP signs 30-year PPA with PLN
April 2008	West Java provincial government approves environmental impact assessment (EIA) for Unit 1. Environmental permit issued.
March 8, 2010	Bank consortium signs loan agreement for Unit 1
July 2012	Unit 1 starts commercial operation
March 24, 2014	NEXI decision to provide insurance to CEP for Unit 1
November 10, 2016	Local residents submit statement of objections (dated November 8, 2016) to JBIC pointing out non-compliance with JBIC Guidelines
Unit 2	
October 23, 2015	CEPR signs 25-year PPA with PLN
May 11, 2016	West Java provincial government approves EIA for Unit 2. Environmental permit issued.
December 6, 2016	Local residents initiate administrative lawsuit demanding cancellation of environmental permit for Unit 2
April 18, 2017	Bank consortium signs loan agreement for Unit 2 (no official announcement at this time)
April 19, 2017	Bandung District Court recognizes residents' case and cancels environmental permit for Unit 2

⁵⁴ <https://www.foejapan.org/aid/jbic02/cirebon/170524.html>

⁵⁵ Reference: Written opinion by residents' group on report of the Examiner for JBIC Environmental Guidelines (Nov. 8, 2022) (<https://foejapan.org/issue/20221128/10404/>)

⁵⁶ See Footnote 54.

⁵⁷ As a result of the initial assessment, the Japan NCP judged that the case merits further consideration, and in February 2018, a mediation process began. However, despite the passage of time, there has been no indication of the direction for any resolution through the procedures, as the Japanese companies involved have withheld any decision to approve of the mediation on the grounds that they are still in dispute. Since the Indonesian authorities continue to investigate bribery cases related to the Unit 2 project even after the lawsuit ended, still no progress has been seen in the process with the Japan's NCP.

⁵⁸ <https://fairfinance.jp/news/2021/20210426/>

May 24, 2017	Local residents submit an objection (dated May 21, 2017) to JBIC pointing out non-compliance with JBIC Guidelines
May 24, 2017	Japanese and Indonesian environmental organizations, representing local residents, submit statement of concerns (dated May 23, 2017) to Japan's NCP pointing out that Japanese companies are not complying with OECD Guidelines for Multinational Enterprises
July 17, 2017	West Java provincial government issues new environmental permit for Unit 2
November 14, 2017	Bank consortium disburses initial loan for Unit 2
April 26, 2021	Indonesian civil society organizations submit letter of complaint to ING Bank on environmental damage, human rights violations, and corruption caused by loans to projects
As of December 2022	Unit 2, trial operation
2022 (planned)	Unit 2 start of commercial operation (planned)

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Published by Fair Finance Guide Japan, Asia-Pacific Resource Center (PARC), APLA, Japan Center for a Sustainable Environment and Society (JACSES), Japan Tropical Forest Action Network (JATAN)

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The report was funded by the Swedish International Development Cooperation Agency (Sida).