

## Environmental Defense International Case Studies

### INDONESIAN POWER PROJECTS: THE PAITON DEBACLE (INDONESIA)

#### Background

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Financing for the massive Paiton coal plant complex in Java was provided in 1995 by a \$2.5 billion finance package for Paiton One covered by guarantees and loans from JEXIM, MITI, US EXIM, and OPIC and, in 1996, by a \$1.7 billion finance package for Paiton Two provided by US EXIM, Hermes, the German Kreditanstalt fuer Wiederaufbau (KfW), and C&L Deutsche Revision (Germany's public investment insurance agency – analogous to the U.S. OPIC). In December 1998, the *Wall Street Journal* – which identified Paiton One as "one of the most expensive power deals of the decade, anywhere" – detailed the staggering corruption involved in the Paiton I deal which had been directly supported, over the years, by former Vice President Dan Quayle, President Clinton, Ron Brown, Robert Rubin, Warren Christopher and Henry Kissinger (the latter two acting as lobbyists for a Mission Energy-General Electric joint venture which eventually succeeded in winning the project bid).<sup>1</sup>

In Indonesia, only one of the country's private power contracts had ever been competitively bid, meaning that most of the billions of dollars of foreign power investments in Indonesia "went through cronies and relatives of Mr. Suharto."<sup>2</sup>

According to the *Wall Street Journal*, the Mission-GE megaproject, as Indonesia's first private power venture, set the tone for all investments to follow. The company ...

"bagged one of the richest private-power contracts of the 1990s when its local partner, a relative of Mr. Suharto by marriage who received shares in the project essentially free, sealed the deal by getting Mr. Suharto himself to weigh in in favor of Mission-GE at a key juncture in price negotiations."<sup>3</sup>

According to Djiteng Marsudi, the head of Indonesia's now-bankrupt state owned electric utility, PLN, "the U.S. power companies dictated

terms to us because they had Indonesia's first family behind them." <sup>4</sup> PLN was ordered to utilize coal from a company owned by Mission-GE partners Hashim Djojohadikusumo (a Suharto relative by marriage) <sup>5</sup> and Agus Kartasasmita (brother of then-Minister of Mines and Energy and current Economics Minister now overseeing Indonesia's relations with the World Bank and the IMF). Mr. Hashim's company planned to charge PLN 30% to 40% more than the going rate for coal. Despite repeated requests by GE, Mr. Hashim refused to sign anti-corruption forms or statements. <sup>6</sup>

The government ordered Mission-GE to purchase boilers for the plant from ABB Combustion Engineering. Combustion's state-owned affiliate was chaired by Mr. Habibie, and a Suharto son was the company's commercial agent in Jakarta. The purchase of the boilers from this company added \$20 million in costs. Mission-GE insisted that PLN must pay an extremely high tariff for the electricity to be produced by the plant and suggested that more debt could be shifted to OPIC to cover the tariff, finally set at 8.6 cents per kilowatt-hour of electricity, 32% higher than comparable tariffs in Indonesia. When a US Exim Bank official visited Jakarta, several government and PLN officials told her that they didn't want and couldn't afford Paiton.

"It was a presidential decision," says Nengah Sudja, a former head of research for PLN. "Everybody knew it was nepotism, but we couldn't do anything about it." <sup>7</sup>

According to the *Wall Street Journal*, government planners knew PLN was not ready for big private-power initiatives and the utility's "transmission grid leaked like a sieve." Indonesian government power consultants recommended smaller, environmentally and economically more sustainable alternatives such as geothermal and small gas-fired plants, and urged competitive bidding. Instead, Suharto and then Technology Minister B.J. Habibie, now Indonesia's president, "hand-picked developers to lead the charge into big, high-risk, coal-fired power stations" according to these same consultants.

In the aftermath of the economic crisis, PLN has told Mission-GE that doesn't plan to buy any electricity at all from the consortium's 1,230 megawatt coal-fired plant next year, when it is scheduled to go on-line. ECA finance of over a billion dollars – backed by the taxpayers of the industrialized countries – has abetted a gigantic economic and environmental fiasco.

## Notes

1. "Power Deals With Cuts for First Family in Indonesia are Coming Under Attack," *Wall Street Journal*, 12/23/98.
2. ibid
3. ibid
4. ibid
5. Mr. Hashim is the brother of the notorious General Prabowo, who is married to a Suharto daughter and who was the former head of Indonesia's brutal Kopassus special forces (active in East Timor and West Papua), and who currently faces charges of orchestrating the murder of student demonstrators by sniper fire.
6. Another sought-after investor, Mr. Djojohadikusumo's sister-in-law (the wife of General Prabowo), "flew into a rage" when Entergy, a U.S. company also interested in the Paiton deal, "insisted she sign some anticorruption documents." As a result, Entergy dropped the deal as did Southern Co., the biggest U.S. power producer in Asia, "because of concerns over cronyism and other risks." GE – backed by ECA insurance and guarantees – went on with the deal. *Wall Street Journal*, 12/23/98.
7. ibid