



THE TROUBLE WITH GAS IN INDONESIA

How replacing coal with fossil gas for energy will not achieve necessary emissions reductions



The World Bank Group (WBG)'s plans to expand gas infrastructure in Asia pose a huge threat to meeting the global goals of the Paris Agreement and averting the most catastrophic impacts of the climate crisis. This is because fossil gas is composed of hydrocarbons and methane, a significantly more powerful greenhouse gas than carbon dioxide (CO₂). As fossil gas is produced, transported and consumed, large amounts of methane leak out as greenhouse gas (GHG) emissions. This undermines efforts to avert the climate crisis. In 2019, gas accounted for 22% of all fossil fuel emissions.

Indonesia's new gas infrastructure will lock in greenhouse gas emissions for decades to come, undermining the country's decarbonisation efforts. Fossil gas infrastructure and processing is displacing people, decimating mangroves and rainforests, polluting the sea, coastal areas, and destroying the livelihoods of communities living nearby. It is also locking Indonesia into dependency on the fossil gas industry, and contributing significantly to the escalation of the climate crisis.

Global Energy Monitor (GEM)'s survey of global public financing shows that public finance institutions provided a staggering \$22.4 billion in financing for gas projects in Asia between 2014 and 2018.

This case study from Recourse, Traction Energy Asia, Greenpeace Indonesia and Trend Asia demonstrates that the WBG has not yet committed to ending its fossil gas financing and technical support in Indonesia.

World Bank gas expansion plans for Indonesia

At the UN Climate Talks (COP26) in Glasgow, the Indonesian government signed the Global Methane Pledge. In doing so it pledged to take voluntary actions to contribute to a collective effort to reduce global methane emissions by at least 30 percent from 2020 levels by 2030, which could eliminate over 0.2°C warming by 2050.

However, the World Bank's current strategy for investing in Indonesia in the crucial next few years, the Country Partnership Framework (CPF) 2021-24, supports the "acceleration of deployment of natural gas and biogas". This strategic document includes the aim of "improving the investment climate for private investors by strengthening natural resource governance, gas infrastructure planning, and regulatory reform." There is a specific mention of planned technical assistance to support gas and alternative energy sources that will form the basis for new gas projects in Indonesia. This gas infrastructure planning may include new fossil gas power stations, pipelines and ports, LNG import terminals and regasification plants. Such projects come with corresponding environmental and health impacts as well as methane emissions that will contribute significantly to Indonesia's GHG emissions.

The World Bank's 2018 pledge to end financing for upstream oil and gas did not include indirect financing. This Financial intermediary (FI) lending delegates the responsibility for managing social and environmental impacts of sub-projects to FI clients, such as commercial banks or private equity funds. FI investments comprise over half of the total portfolio of the World Bank's private sector arm, the International Finance Corporation (IFC). IFC loans and equity stakes in financial institutions keep the door open for private financing of fossil fuels, including coal and upstream oil and gas.

A 2022 World Bank Development Policy Finance (DPF) P177726 for Indonesia Fiscal Reform of \$500m, went to the Board for approval in April 2022. Development Policy Finance (DPF) supports governments through non-earmarked general budget financing, conditional upon reforms or "Prior Actions". This DPF aims to remove Value Added Tax (VAT) exemptions for mining, and gas and oil drilling. However the DPF does not include plans to extend the removal of VAT exemptions to coal, gas and oil infrastructure, including power stations, pipelines and ports, and downstream coal-processing.

While the World Bank is also supporting the introduction of a new carbon tax through this DPF, it risks having unintended negative consequences. Fossil fuel companies will likely pass on the cost of this carbon tax to consumers in Indonesia, which will in turn increase levels of poverty and reduce access to energy for the most vulnerable.

The World Bank's Indonesia Economic Prospects Report (IEP) of December 2021 outlines scenarios that are intended to move Indonesia towards a prosperous decarbonised economy and yet threaten to encourage the country to gas dependency. The scenarios' emphasis is very firmly on phasing out coal in favour of fossil gas and renewable energies, but they envisage a doubling of gas electricity generation. At no point in the IEP report is fossil gas considered to be a significant GHGs emitter.



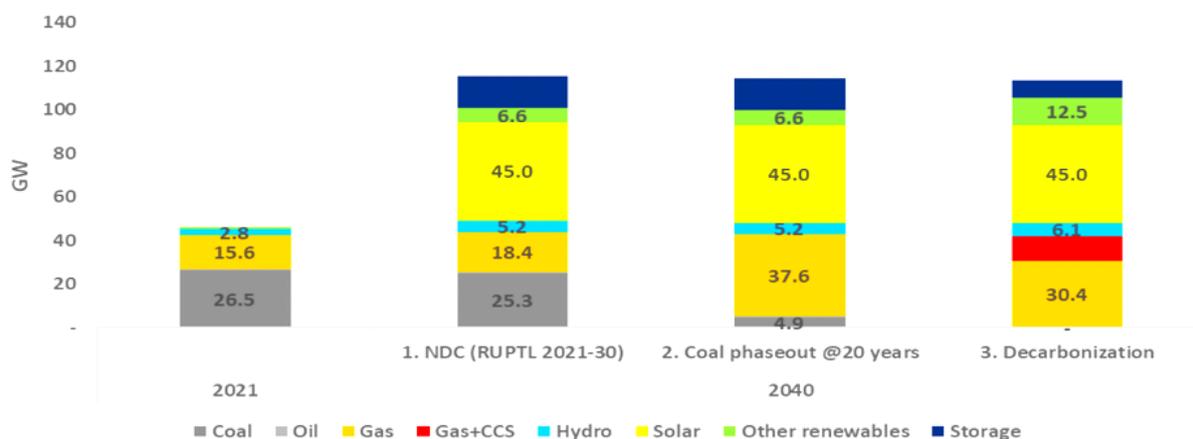
**The World Bank's
2018 pledge to end
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The IEP report states that "good solar irradiation and declining costs of equipment make solar energy one of the least cost sources of power production in Indonesia" which is encouraging. Gas power, on the other hand, is described as "dispatchable and low cost" so that "once solar potential is fully met, there is a switch to combine cycle gas turbines". This ignores the extreme volatility of gas prices that is leading countries to become dependent on importing gas and paying exorbitant spot prices.

In the IEP report, a decarbonisation scenario would see Indonesia double its installed gas capacity in the period 2021 to 2040.

Installed Electricity Generation Capacity in 2021 and 2040 under Different Transition Scenarios



This scenario contradicts the International Energy Agency's Net Zero Emissions by 2050 roadmap that requires the world's natural gas demand to more than halve to keep global warming below 1.5 Celsius (C).

The World Bank Group's public finance inspires confidence in project viability, and this encourages private sector investment. As such, this scarce public finance should be used to help countries transition away from fossil fuels. But in Indonesia, it is instead encouraging confidence in fossil gas. **The WBG has an important role in redirecting finance away from fossil gas to align both private investment and public policy with the Paris Agreement goal of keeping global warming below 1.5C.**

Burning more fossil gas as envisaged in the IEP report for Indonesia will undermine the country's ability to achieve its Nationally Determined Contributions (NDCs) to meet the Paris Agreement, by contributing to the to the continued rise of GHG emissions when a sharp decline is needed to avert the worst impacts of climate change.



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How the World Bank supported the expansion of BP's Tangguh fossil gas liquefaction project:

Even in 2015, the year of the Paris Agreement, the World Bank's investments were locking Indonesia into fossil gas. The World Bank's results report of the First Indonesia Sustainable and Inclusive Energy DPF loan of \$500m established gas-specific programme development indicators. These indicators required the PLN to enter into new long-term agreements for domestic and/or inter-island gas supply. The DPF specifically aimed to increase *"the share of gas in power generation and [promote] the use of gas in a wide range of industry sectors in the downstream"*.

As a result, in 2016, the amount of gas PLN contracted for the Jawa 2 power plant from BP's Tangguh project increased twelve fold in 2020, from 17 to 218 million cubic feet per day. Tangguh is currently the largest gas producing field in Indonesia. Production from the offshore fields is to be ramped up to 35% of Indonesia's total gas production once a new third facility comes into operation.

The Tangguh liquefaction project is implementing Carbon Capture Utilisation and Storage (CCUS) which the company claims will support Indonesia's commitment to reduce its carbon emissions by between 29% and 41% by 2030 versus business as usual. But CCUS continues to face significant uncertainties about how economical it is, or how scalable it can be to respond to the magnitude of the emissions problem. CCUS risks being used by the WBG to justify continued exploitation of fossil fuel reserves or prioritised over investing in sustainable, renewable energy sources.

Leapfrogging fossil gas in Indonesia's energy mix

In 2021, Indonesia's state energy company Perusahaan Listrik Negara (PLN) issued a so-called "green" Electricity Business Plan (RUPTL) which marked a renewed commitment for Indonesia to reduce emissions. It also highlighted the need for significant investment in renewable power capacity and grid flexibility.

However, Indonesian energy experts note that this new energy plan falls short of what is needed as by 2030 coal will still comprise 59.4% of the energy mix. They also point out that much of the planned expansion of renewable energy is based on large hydro and geo-thermal projects, which have massive environmental and social costs attached to them. Also when the Indonesian government committed to close a number of coal-fired power plants, it replaced those with several new gas power stations with projected capacity of 6000 megawatts (MW).

PLN is already locked-in to unneeded baseload power, with massive overcapacity problems. This has been created by coal plants that are already built or under strict power purchase agreement terms which require large payments to foreign Independent Power Producers (IPPs). Coal power capacity in Indonesia has doubled in the last 10 years.

The challenge for Indonesia to get out of coal and leapfrog to sustainable renewable energy is immense, and needs significant support from public finance. The national electricity plan (RUPTL 2021-2030) sets out major low carbon transition targets for the sector. In this plan the share of renewable energy in total electricity production is expected to increase from 12 to 23 percent in 2020-2025 to reach Indonesia's pledges under the Paris Agreement. Public finance - such as that from the WBG - should have a central role in supporting this effort.



Coal gasification is another obstacle to World Bank's commitment to ending coal financing. Indonesian companies and policymakers are still seeking ways to capitalise on domestic coal resources and will continue to do so until incentives favour renewable energy development.

A new Renewable Energy Bill (RUU EBT), debated in Indonesia's parliament in April 2022, classifies 'coal gasification' as 'new energy', with the inference that incentives will be available to support its development. Coal gasification plans risk stoking demand for low-rank coal reserves, resulting in higher GHG emissions and other negative environmental impacts.

THE WORLD BANK GROUP MUST:

-  Urgently redirect direct and indirect finance away from fossil gas to align both private investment and public policy and practice with the Paris Agreement's goal of keeping global warming below 1.5C;
-  Ring-fence public finance for energy in Indonesia to support a just transition away from coal; to leapfrog the gas phase of development and to support local, sustainable and renewable energy sources;
-  Finance sustainable, renewable energy sources and increase support for energy storage and grid modernisation to allow more renewable energy to be integrated into the power system;
-  Exclude support for unproven expensive technologies and false solutions like coal gasification and Carbon Capture, Utilisation and Storage (CCUS) that continue to justify fossil fuel exploitation and new fossil fuel power generation.

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