

To potential investors in Sarawak, Malaysia

The risks of investing in SCORE and Sarawak dams

Bruno Manser Fund

Basel
Switzerland

September 2014

**bruno
manser
fonds**

for the peoples of the rainforest

Investing in the Sarawak Corridor of Renewable Energy (SCORE)

One of Asia's largest energy projects is currently being planned and implemented in Sarawak, Malaysia. The initiative, called the Sarawak Corridor of Renewable Energy (SCORE), has attracted interest from a range of potential investors. The Sarawak government describes SCORE as a rapid industrialization program in which industries are invited to start operations in Sarawak with favourable business terms and access to low-cost electricity.

SCORE's electricity supply will be provided by the recently completed Bakun Dam and a number of large hydropower projects that the Sarawak government and its fully owned power supplier Sarawak Energy Berhad are planning in Sarawak's interior. The construction of the Murum Dam has just been completed while the highly controversial Baram Dam is in the preparation phase. Due to the poor experience acquired with the Bakun and Murum Dams, the latest hydropower projects are facing tough resistance from local communities and the opposition.

This fact sheet aims at informing potential investors about the risks associated with SCORE and was compiled by the Bruno Manser Fund.

Several international investors have recently withdrawn from SCORE because of Sarawak's high corruption profile, the state government's failure to comply with internationally acknowledged environmental and human rights standards, and other business considerations: Norsk Hydro decided in 2009 not to invest in an aluminium smelter project, and Rio Tinto Alcan withdrew from this same smelter in 2012. In late 2012, Hydro Tasmania considerably reduced its involvement in Sarawak after strong criticism in Australia and Sarawak against its involvement.

The **Bruno Manser Fund** is a Swiss-based NGO with decades of experience in monitoring corruption, indigenous rights and environmental issues in Sarawak. The organisation's positions are informed by the analysis of financial documents and on-site research.

**bruno
manser
fonds**

for the peoples of the rainforest

Risks associated with SCORE

1. Risk of unpredictability and loss of contracts because of bribery and corruption

It is common practice in Sarawak for the family and friends of ruling politicians to be favoured with public contracts. Many business opportunities depend on the payment of bribes. Responsible international investors are in a difficult position in Sarawak's business environment and can lose out when bidding for contracts:

- In 2012, Malaysia was ranked 1st in a Transparency International survey where companies felt they had lost contracts because they did not pay bribesⁱ.
- The Malaysian Anti-Corruption Commission (MACC) has been investigating Sarawak's long-time ruler Abdul Taib Mahmud since 2011. During his more than 30 years in power, the Taib family has amassed stakes in at least 400 companies worldwide, of which 332 are in Malaysia. The Taib family's wealth is estimated at over US\$ 20 billionⁱⁱ. Malaysian authorities could keep a watchful eye on companies that cooperate.

- A significant share of the contracts and concessions handed out by the state government goes to companies controlled by the Taib family or government-linked companies. Under SCORE, the Taib family's Cahya Mata Sarawak (CMS), Naim and Sarawak Cableⁱⁱⁱ are in the front row to profit.

2. *Unhealthy financial base of SCORE and lack of feasibility*

Researchers called SCORE "the most capital intensive and ambitious energy project ever undertaken in Southeast Asia"^{iv}. Such an immense project calls for a proper economic feasibility evaluation, which has presumably not been carried out and has certainly not been published. Various indicators point to its questionable feasibility and weak financial base:

- SCORE is meant to attract around US\$ 105 billion of investment by 2030^v. Since the start of SCORE in 2009, only MYR 29.1 billion^{vi} (US\$ 8.9 billion), around 11% of the total expected investment, has been attracted according to official statements. These are optimistic state figures which have not been independently verified.
- SCORE is highly dependent on state spending. The high state spending and state-guaranteed private financing, however, is unlikely to be continued in the long-run. Sarawak has a high debt burden, equivalent to 190% of Sarawak's operating revenue in 2012. The infrastructure projects necessary to realize SCORE and the state ownership of Sarawak Energy signify a further liability^{vii}.
- A SCORE forerunner project, the Sama Jaya Industrial Zone in Kuching, which was established in 1991, failed. A semiconductor foundry, the heart of the project, incurred high debts. The government covered the costs of the failure with MYR 2.5 billion (US\$ 767 million)^{viii}. This further questions the feasibility of the SCORE initiative.
- The hydropower expansion strategy is supply-driven rather than demand-driven. Current organic demand for electricity from traditional customers is 900 MW^{ix}. Sarawak Energy is targeting a generation capacity of 8,000MW for 2020^x. Up to now, according to official sources, power purchase agreements for 1,745 MW^{xi} have been signed with industrial customers and for 230 MW^{xii} with neighbouring countries. Consequently, Malaysia's rating agency RAM Ratings attests Sarawak Energy a high demand risk as power demand from consumers will likely lag behind the realization of new power plants^{xiii}.

3. *Risk of shortage of labour and skills*

SCORE faces a severe lack of manpower, especially of skilled workers. Consequently, investors are forced to bring in people from abroad to cover their needs. The greatest challenge for companies is to find competent employees with the necessary expertise.

- Whereas Sarawak had a labour force of just over 1.1 million people in 2011, SCORE is allegedly creating over 1 million jobs by 2030^{xiv}. Hence, SCORE would be associated with a massive population influx that is likely to face political resistance.
- Around 40% of jobs (or 400,000 jobs) under SCORE will need semi-skilled and skilled workers by 2030. Sarawak is currently far from being able to meet this demand. This could hinder investment in high-tech industries. Sarawak already suffers from a strong "brain-drain": skilled workers often leave Sarawak to look for opportunities in Peninsular Malaysia or other countries^{xv}.

4. Poor infrastructure

Sarawak's infrastructure is in bad shape and considerable investments are necessary to implement SCORE:

- An academic study^{xvi} concludes that the "lack of supporting infrastructure" is one of SCORE's greatest challenges and an obstacle to its realization.
- At the Murum Dam, the collapse of a diversion tunnel and a two-year delay in the construction of the access road to the dam site considerably slowed down the construction works.^{xvii}
- Power blackouts caused by the poor power grid infrastructure are part of daily life in Sarawak.

5. Mismanagement at Sarawak Energy

Sarawak Energy Berhad is responsible for the management of all energy-related projects within the SCORE initiative. On several occasions, Sarawak Energy has proven its inability to manage the challenges linked to large projects:

- Sarawak Energy has been unable to provide a stable power network. Power outages are common. In June 2013, the Bakun Dam caused a complete power blackout all across Sarawak for several hours^{xviii}. (As a consequence, the aluminium plant of Press Metal in Mukah suffered a complete shutdown for over four months^{xix}.)
- Sarawak Energy is facing alarming safety issues at the recently completed Murum Dam. A leaked assessment by Norwegian consultancy company Norconsult identified serious defects: "The turbine runners are not suitable for installation and operation" and these flaws "may cause small or catastrophic breakdowns"^{xx}. In its 2010 Annual Report, Sarawak Energy admitted "significant issues with the contractor's safety performance" at the dam^{xxi}.
- The Malaysian credit-rating service RAM Ratings reports that Sarawak Energy has a "weak balance sheet and debt-servicing ability". Sarawak Energy's debts increased steeply from MYR 3.95 billion at the end of 2011 to MYR 6.28 billion (US\$ 1.93 billion) at the end of 2012 (no newer data has been provided by the company). In 2011, Sarawak Energy embarked on a MYR 15 billion (US\$ 4.88 billion) sukuk (Islamic bond) programme with unclear long-term consequences.^{xxii}

6. Risk of being implicated in human rights abuses and violation of international standards and widespread local opposition

The Sarawak government and Sarawak Energy have repeatedly violated internationally accepted standards and rights, as the documentation shows^{xxiii}:

- Tens of thousands of mainly indigenous people would have to be displaced for the construction of the SCORE dams. Most of these people have not given their consent to the resettlement and are thus facing forced displacement. Their rights to property and to land are being denied.
- At the recently completed Murum Dam and for the proposed Baram Dam, Sarawak Energy has violated the affected people's rights to information, to participation, to free, prior and informed consent, to education and to self-determination inter alia and used coercion, including threats and intimidation.
- Protests and blockades of the affected people have already delayed some of the hydropower projects by several years.

For more information, please contact the Bruno Manser Fund at info@bmf.ch, Socinstrasse 37, CH-4051 Basel, +41 61 261 94 74 or visit our campaign website at www.stop-corruption-dams.org.

Endnotes

- ⁱ The Wall Street Journal (2012) “Malaysia Tops Bribery Table”, <http://blogs.wsj.com/searealtime/2012/12/11/malaysia-tops-bribery-table/>, viewed August 2014.
- ⁱⁱ The Bruno Manser Fund (2012) “The Taib Timber Mafia: Facts and Figures on Politically Exposed Persons (PEPs) from Sarawak, Malaysia”, http://www.stop-timber-corruption.org/resources/BMF_Taib_family_report_2012_09_20.pdf.
- ⁱⁱⁱ The Bruno Manser Fund (2012) “Sold Down the River: How Sarawak Dam Plans Compromise the Future of Malaysia’s Indigenous Peoples”, http://stop-corruption-dams.com/resources/Sold_down_the_river_BMF_dams_report.pdf.
- ^{iv} Sovacool, Benjamin and Bulan, L.C. (2011) “Meeting Targets, Missing People: The Energy Security Implications of the Sarawak Corridor of Renewable Energy (SCORE)”, in Contemporary Southeast Asia Vol33, No. 1.
- ^v Sovacool, Benjamin K. and Bulan, L.C. (2011) “Meeting Targets, Missing People: The Energy Security Implications of the Sarawak Corridor of Renewable Energy (SCORE)”, in Contemporary Southeast Asia Vol. 33, No. 1.
- ^{vi} Oxford Business Group (2013) “The Report Sarawak 2013”.
- ^{vii} Oxford Business Group (2013) “The Report Sarawak 2013”.
- ^{viii} Oxford Business Group (2013) “The Report Sarawak 2013” and Hornbill Unleashed “Bad investment leaves S’wak RM2.5 billion poorer”, October 20 2010, <http://hornbillunleashed.wordpress.com/2010/10/20/bad-investment-leaves-swak-rm2-5-billion-poorer/>, viewed August 2014.
- ^{ix} Wong, Jonathan (2014) “The future of hydropower in Sarawak”, in: Borneo Post, 9 June 2014, <http://www.theborneopost.com/2013/06/09/the-future-of-hydropower-in-sarawak/>, viewed August 2014.
- ^x Oxford Business Group (2013) “The Report Sarawak 2013”.
- ^{xi} RHB (2013) “SCORE a Hit With Investors”, 28 June 2013.
- ^{xii} Torstein Dale Sjøtveit (2014) “Invitation from Sarawak Energy Berhad”, in: Power-Gen Asia 2014, “Preliminary Event Guide”.
- ^{xiii} RAM Ratings, press release 6 August 2013 “RAM Ratings reaffirms AA1 rating of Sarawak Energy’s sukuk”, <http://www.ram.com.my/pressReleaseView.aspx?ID=f55cf423-c8f5-47ec-a0bf-cacc9e387b80>, viewed August 2013.
- ^{xiv} Oxford Business Group (2013) “The Report Sarawak 2013”.
- ^{xv} Oxford Business Group (2013) “The Report Sarawak 2013”.
- ^{xvi} Sovacool, Benjamin K. and Bulan. L.C. (2011) “Settling the Score: The Implications of the Sarawak Corridor of Renewable Energy (SCORE) in Malaysia”, in Energy governance Case Study No. 4.
- ^{xvii} Sarawak Energy Berhad (2012) “2010 Annual Report”.
- ^{xviii} Sarawak Energy (2013), media release, “Sarawak Energy assures public and business that power supply and stability has been fully restored”, <http://www.sarawakenergy.com.my/index.php/news-events-top/latest-news-events/latest-media-release/390-390-280613latestpressrelease>, viewed August 2014.
- ^{xix} Ronnie Teo (2013) “Press Metal mitigated by insurance, Samalaju ramp-up”, in: Borneo Post, July 3 2013, <http://www.theborneopost.com/2013/07/03/press-metal-mitigated-by-insurance-samalaju-ramp-up/>, viewed August 2014.
- ^{xx} Lars Eliasson (2014) “Murum HEP – Turbine runners – Independent assessment”, Norconsult, 20.3.2014.
- ^{xxi} Sarawak Energy Berhad (2012) “2010 Annual Report”, page 41.
- ^{xxii} RAM Ratings, press releases of 6 August 2013 and 23 June 2011 “RAM Ratings reaffirms AA1 rating of Sarawak Energy’s sukuk”, “RAM Ratings assigns AA+ rating to Sarawak Energy’s proposed RM15 billion sukuk”, <http://www.ram.com.my/pressReleaseView.aspx?ID=f55cf423-c8f5-47ec-a0bf-cacc9e387b80>, <http://www.ram.com.my/pressReleaseView.aspx?ID=357c4716-d1d9-4c4e-8f5a-179270d37682>, viewed August 2014.
- ^{xxiii} For more information on human rights violations:
SAVE Rivers (2014) “No Consent to Proceed: Indigenous Peoples’ Rights Violations at the Proposed Baram

Dam in Sarawak”, [http://stop-corruption-](http://stop-corruption-dams.org/resources/No_Consent_to_Proceed_Baram_HR_Report.pdf)

[dams.org/resources/No_Consent_to_Proceed_Baram_HR_Report.pdf](http://stop-corruption-dams.org/resources/No_Consent_to_Proceed_Baram_HR_Report.pdf)

The Malaysian Bar Council (2014) “Report on Study Trip to Metalun and Tegulang Resettlement Areas, Belaga, Sarawak”, http://stop-corruption-dams.org/resources/Bar_Council_Murum_Report_2014.pdf

SUHAKAM, Human Rights Commission of Malaysia (2009) “The Murum Hydroelectric Project and its Impact towards the Economic, Social and Cultural Rights of the Affected Indigenous Peoples in Sarawak”, <http://www.suhakam.org.my/wp-content/uploads/2013/12/Murum1.pdf>