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Lapindo Brantas shirking its responsibility for damage caused by the mud volcano in Sidoarjo, Indonesia

Major international banks involved in financing catastrophic mud volcano

On May 29 2006, a mud volcano started gushing from the ground less than 200m from the Banjar Panji I gas exploration well in the Brantas Production Sharing Contract area, and has not stopped since, spilling up to 150,000 m³ of hot mud on the surrounding area daily. 3,500 families have been forced from their homes, 11 villages submerged, approximately 350 ha of farming land ruined, businesses and schools closed and livelihoods lost. It has devastated the lives of more than 15,000 people and material losses are estimated at Rp 27 trillion (about US\$ 3.0 billion). Major impacts on the wider marine and coastal environment are expected, with knock-on effects for the many thousands of people who depend on fish and shrimp for their living.

So far, all efforts to stop the flow have failed. Indonesia's National Mudflow Mitigation Team's recent attempt to reduce the amount of mud flowing by dropping thousands of concrete balls into the mouth of the volcano has been a failure and was abandoned in May. Experts warn that the flow could go on for many more months, or even years, and may even be unstoppable.

Establishing the cause of the eruption has been a highly controversial issue. Lapindo Brantas Inc., the operator of the Banjar Panji I gas exploration well, claims that the eruption is a natural disaster, triggered by an earthquake two days earlier near Yogyakarta, South Java. Geologists, however, dismiss this as the natural cause, judging that the earthquake is merely coincidental and is unlikely to have caused the eruption. Instead, it appears that Lapindo Brantas Inc. neglected basic safety standards in their drilling operation, failing to install a casing around the well to the levels required under Indonesian mining regulations. When mud seeped into the well at a depth of around 1,800 meters, and cement plugs were inserted to stop the leak, the pressurised mud forced its way to the surface about 180m near the well.

So far, no independent court has established once and for all whether the mudflow is a natural disaster or the result of a drilling accident. Indonesia's President Susilo Bambang Yudhoyono seems to be torn between two conflicting interests: the interests of the affected people and the interests of Lapindo Brantas Inc., which is a subsidiary of Energi Mega Persada, a company controlled by the Indonesian welfare minister Aburizal Bakrie.

President Yudhoyono has repeatedly ordered Lapindo Brantas Inc. to pay US\$ 435 million in compensation to the victims and for efforts to stop the mudflow. It is unclear, however, how that figure was arrived at, or if Lapindo has actually agreed to provide that amount of money. And so far **the compensation process has been extremely slow and there is a large discrepancy between what**

the victims are demanding and what Lapindo is willing to pay. More than a year after the mud flow started, only partial compensation has been paid to 75 rice-farmers and 8 of the 22 companies that were affected by the mud. An agreement for cash compensation for the families hit by the disaster has still not been reached. Lapindo has said it will start paying compensation to victims in 4 of the 11 affected villages next month, provided they can show the owners certificate of their inundated home – which many lost in the mud along with the rest of their belongings.

Although the government has said it will bear the costs of repairing or rebuilding damaged infrastructure, it has trouble securing approval from the House of Representatives for funds. Repairs are held up because legislators keep asking the government to demand that Lapindo bears all the costs. Currently, a motion is being prepared by more than 200 legislators from major political parties, questioning the government's sluggish handling of the disaster.

The Brantas PSC, operated by Lapindo Brantas Inc., is owned by three companies: the Indonesians Energi Mega Persada (50%) and PT Medco E&P Brantas (32%), and the Australian Santos (18%). Energi Mega Persada has twice unsuccessfully tried to sell its part in Lapindo Brantas to dubious overseas companies, in an apparent attempt to dodge its liability for the incident. Fortunately, these efforts were stopped by the Indonesian government. .

We believe that it is highly likely that Lapindo Brantas is responsible for the mud flow. But regardless of whether the missing casing around the well or the earthquake triggered the eruption, the mud volcano did occur on the site of the Brantas gas exploration well. This gives all three companies owning the Brantas PSC the obligation to alleviate the grievances of those affected, and take responsibility for stopping the flow, repairing damage and providing compensation. All three companies involved in the production sharing contract at the time of the incident should be held liable, and under no circumstances should any of the companies be allowed to shirk its responsibility.

Likewise, the private banks whose investments made the exploration of the gas field in Sidoarjo possible bear a responsibility to ensure that the disaster and its consequences are adequately addressed. At least 33 banks and financial institutions have been involved in financing the three Brantas PSC companies, among them several major international banks. Most notably Credit Suisse (Switzerland), Barclays (United Kingdom), Merrill Lynch & Co. (United States), Natixis (France) and the Fortis Group (Netherlands/Belgium) have arranged credit facilities, managed bond and/or share issuances, entered into interest and currency swap contracts, or own shares themselves or on behalf of customers. Hundreds of millions of Euros have been injected by the banks in Lapindo Brantas and its owners. Friends of the Earth calls on these banks to accept their responsibility in the disastrous mudflow created by the drilling of Lapindo Brantas Inc. and to take adequate steps to guarantee that Lapindo pays all costs related to restoration and compensation. Any new loan from the banks should be conditional on Lapindo Brantas paying compensation for all its damage. So far the banks have failed to take adequate measures to guarantee that Lapindo Brantas is actually repairing and compensating for the damage they have caused.

This is an integrated summary of the two reports below:

'Lapindo Brantas and the mud volcano Sidoarjo, Indonesia':

http://www.foeeurope.org/publications/2007/LB_mud_volcano_Indonesia.pdf

'The financing of the three Brantas PSC companies':

http://www.foeeurope.org/publications/2007/Brantas_financing.pdf