Mr. Tadashi Maeda
Governor of the Japan Bank for International Cooperation

April 2nd, 2019

We are writing to provide you with our further inputs on the Van Phong 1 coal fired power project ("the Project") in Vietnam. In addition to the environmental and social concerns we raised in the previous letters, in this letter we would like to raise our concerns Engineering, Procurement and Construction (EPC) contractors involved in the Project.

We demand that JBIC should not finance the Project, which will put Japanese public money at stake.

Low Credit Ratings of Van Phong 1 EPC Contractors

We believe that the Van Phong 1 project may not be completed within the time frame committed by the project owner, considering the unstable financial status of its EPC contractors, especially Doosan Heavy Industries ("Doosan Heavy"). Doosan Heavy is a Korean turbine and boiler manufacturer that has entered into an approximately USD 480 million EPC agreement with the lender of the Project. This may place the completion of the Project at risk, as Doosan Heavy is known for its fast decline by financial investors. In fact, during the past ten years, Doosan Heavy share prices in the Korea Exchange KOSPI market have fell from approximately KRW 90,000 to less than KRW 7,000 and its credit ratings from A+ to BBB. Even the credit rating of its mother company, Doosan Corporation is now at BBB+.

Two factors seem to have mainly contributed to the freefall of Doosan Heavy: (i) Doosan Heavy's continuous financial support of Doosan Engineering & Constructions (Doosan E&C), a company which Doosan Heavy holds more than 70% shares in and which has experienced net losses of approximately USD 500 million in 2018 alone;[1] and (ii) the overall decline of the thermal power industry. Doosan Heavy eventually supported Doosan E&C through by purchasing USD 355.5 million worth of new shares of Doosan E&C on February 22, 2019. This new share purchase eventually led to the downgrading of Doosan Heavy and Doosan Corporation's credit rating in late February 2019.[2]

[Ten Year Share Price Trends of Doosan Heavy (source: https://finance.naver.com)]

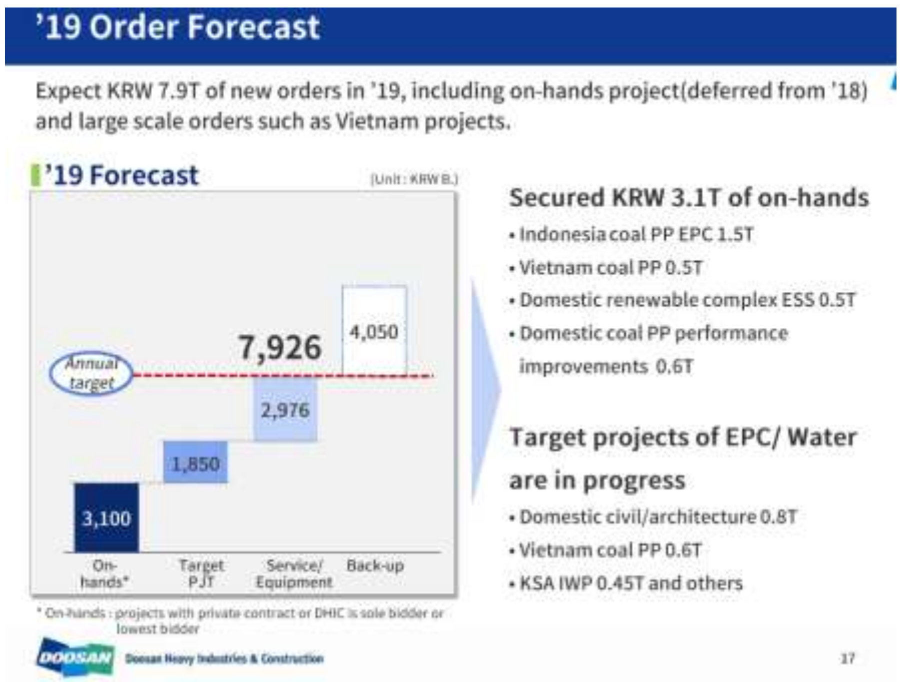
[1] http://www.koreatimes.co.kr/www/tech/2019/02/693_263974.html
[2] http://news.einfomax.co.kr/news/articleView.html?idxno=4018303

[Credit Rating of Doosan Heavy (Source: NICE Group)]

Year	Rating
2008	A
2009	A
2010	A => A+ (Nov. 16)
2011	A+
2012	A+
2013	A+
2014	A+ => A (Dec. 12)
2015	A
2016	A => A- (Mar. 18)
2017	A- => BBB+ (Dec. 26)
2018	BBB+
2019	BBB+ => BBB (Feb. 26)

Doosan Heavy's 2019 business plans reveal how Doosan Heavy is not an exception to the downfall of the global thermal power industry, a business reality Toshiba is experiencing as well . According to the Doosan Heavy 2019 business plan, four projects comprising an estimated cashflow of KRW 3.1 trillion are "on-hands:" (i) a KRW 1.5 trillion Indonesian coal power EPC project (likely, the Jawa 9, 10 project); (ii) a KRW 0.5 trillion Vietnam coal power EPC project (likely, the Van Phong 1 project); (iii) a KRW 0.5

trillion domestic renewable project; and (iv) KRW 0.5 trillion of domestic coal power project performance improvements.[3] Despite such disclosure, the reality appears to be different. According to generation subsidiaries of Korea Electric Power Corporation (KEPCO), the KRW 0.5 trillion domestic coal power performance improvement mentioned above has already been suspended and will not happen in 2019.[4] This suspension is attributable to the growing political opposition against coal power within Korea generated by the deteriorating quality of air. The KRW 1.5 trillion Indonesian coal power EPC project referred to above is a long shot as well. According to people in the banking industry, due to Doosan Heavy's financial situation, this project will not be realized unless massive financial support from the Korea Export Import Bank, the Korea Insurance Trade Corporation and the Korea Development Bank is made available. Financial support from multiple Korean Government institutions is also unclear given that multiple Korean legislators have been severely criticizing the financing of coal power by these institutions. In 2019 alone, at least seven legislators within the Korean National Assembly from two different parties, including the governing party, raised questions or comments to heads of at least seven separate government ministers, government owned financial institutions and utilities in relation to their coal power financing activities.[5]



A recent report by the Mae-Il Economy, a reputable Korean circulation, described Doosan Heavy's grim situation as follows:[6]

"Doosan Heavy executives are also reported to have been reduced to a new half of the past three years in the face of a downsizing. Doosan Heavy executives, who were 151 in 2015, are estimated to have dropped by 143 in 2016, 87 in 2017, and around 70 by the end of 2018. Employee turnout is also

[3] http://www.doosanheavy.com/download/pdf/invest/ir/2018/4Q_en.pdf
[4] http://news.jtbc.joins.com/html/653/NB11783653.html
[5] https://www.youtube.com/watch?v=7qjwYQUQ8Zw
[6] http://news.mk.co.kr/newsRead.php?year=2019&no=41150

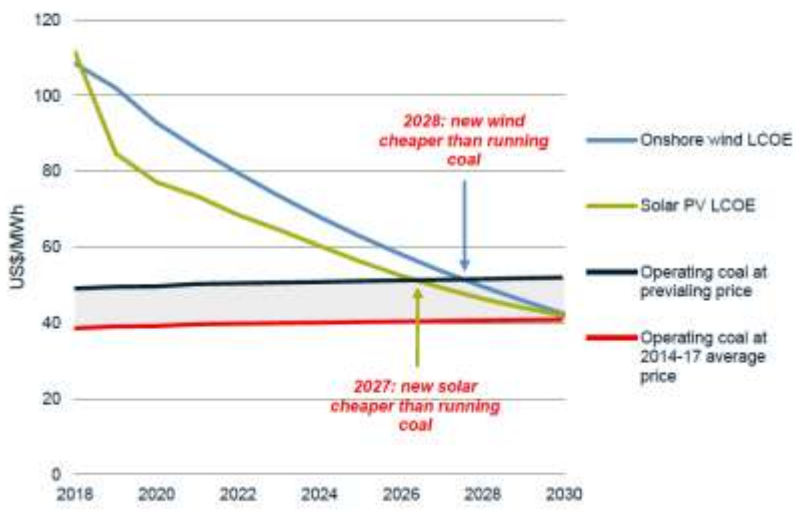
accelerating. Doosan Heavy's full-time workforce declined from 7057 at the end of 2016 to 6901 in 2017 and 6551 at the end of the third quarter of last year. About 500 people have left the company for about two years while the company has been cluttered. A business official said, 'Doosan Heavy's talented people are on the cutting edge of other companies.' Doosan Heavy went into emergency management to reduce labor costs. In the first half of this year, about 2,300 people with more than the general manager level are paid 2 months paid vacation, which is paid only 50% of the monthly salary. It is a form in which 1,000 people alternate for two months. Early retirement is also under way for employees over 50 years of age."

Looking at Doosan Heavy's financial situation described above, we wonder how JBIC has evaluated such completion risks and plan to manage a situation where Doosan Heavy or Toshiba cannot deliver its obligations as an EPC contractor, due to cash flow issues. Many past projects tell us that when you have an insolvent EPC involved in a project, the project runs a serious risk not only in terms of timeliness but also quality. We wonder whether the lender will be able to obtain reliable performance guarantees or warranties from financially stressed companies like Doosan Heavy or Toshiba. If not, JBIC should clarify how it will be supplementing any void of guarantees. We are worried that JBIC is exposing Japanese public funds to subsidize and support the business of financially ailing construction companies, which are not even based in Japan and depriving renewable businesses from opportunities to sell their products abroad.

JBIC's Decision is Inconsistent with the Technological and Economic Trends of the Power Sector

Just like Japan and the rest of the world, renewable costs are falling quickly, which has undermined the cost competitiveness of coal power. According to the Carbon Tracker Initiative, by 2027, when Van Phong 1 will have just begun operation, new solar power will become cheaper than running existing coal power plants in Vietnam (See table below). JBIC may allege that such investments in coal are still safe, as they are supported by long term power purchase agreements ("PPA") and sovereign guarantees. However, no one can assume that the Vietnamese Government will continue to protect its coal power investments, even when it becomes evident that coal power plants like Van Phong 1 are contributing to higher power prices. Although the lender may have entered into a commercially attractive PPA and sovereign guarantee, the lender's assets are captive assets. This means that Vietnam may have a number of other means, including impeding transmission access, imposing additional customs or taxes or denying road access, that may be good tools to discount the prices of PPAs, should coal power projects become economically unviable to the host country.

Vietnam Power LCOE Trends
(Source: Carbon Tracker Initiative, 2018, Economic and financial risks of coal power in Vietnam)



Source: BNEF, CTI analysis

While so much analysis and evidence shows that coal power is coming to an end, lingering on old-fashioned coal power projects would pose more risks on JBIC. Not only is this inconsistent with the forward-looking role that its global peers are playing in the transition to cleaner energy, but it ignores the systemic risk of asset stranding that results when governments encourage backward-looking technology decisions during periods when markets are repricing long-lived assets.

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Friends of the Earth Japan
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