

Open Letter to Investors

Request for investors to divest from Chugoku Electric Power Co. to stop coal-fired power plant project and conduct engagement on coal and climate policies

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To Investors in Chugoku Electric Power Co.:

We the above-signed environmental groups in Japan concerned about climate change and energy issues are hereby writing to urge financial institutions and companies not to participate in the business of coal-fired power generation, which is one of the major drivers of climate change. Our letter of request herein is addressed to 47 companies that are major shareholders of Chugoku Electric Power Co., one of Japan's major power utilities, urging you to withdraw your investments (i.e., divest) from the company to stop the construction of a new coal-fired power plant, which goes against the goals of the Paris Agreement, and to engage with the company about its coal and climate policies.

Chugoku Electric Power Co. is among the companies listed in the Global Coal Exit List (GCEL) produced by the German environmental group "Urgewald" showing companies involved in coal-related businesses.¹ Media have reported that Chugoku Electric Power Co. and Mitsubishi Corporation are currently investing in or considering investing in the Vung Ang 2 coal-fired power plant in Vietnam.² We have many concerns about the project, especially from the perspective of climate change and impacts on local residents, and continue reaching out to other investors and lenders involved in this project.

In view of the problems with this project as enumerated below, we sincerely encourage investors to urge Chugoku Electric Power Co. to stop participating in the Vung Ang 2 project.

Problems with the Vung Ang 2 coal-fired power plant project

Not consistent with the long-term goals of the Paris Agreement

The plan for the Vung Ang 2 coal-fired power plant construction project involves two 660-megawatt generating units based on ultra-supercritical technology. However, even though USC is referred to as being "high efficiency," power generation from coal releases more carbon dioxide emissions than any other means of electricity generation.

The impacts of climate change are growing steadily worsen, putting many lives at risk. There is very limited time left for humanity to act to avoid further damage from climate change. We must move rapidly to end our reliance on coal power, which is such a large

¹ Global Coal Exit List (GCEL) <https://coalexit.org/>

² Vietnam - Chugoku joins Vapco 2, Project Finance International (20-Jul-2020).

emitter of greenhouse gases. Furthermore, to be consistent with the Paris Agreement, OECD countries need to close down their coal-fired power plants by 2030, and all countries as a whole, including developing countries, need to do so by 2040.³

Environmental pollution in the planned project area

A 2016 accident near the planned site of Vung Ang 2 involving the release of pollutants from a Formosa Ha Tinh Steel Corporation's steel plant has been described as Vietnam's worst environmental disaster, causing marine pollution along 200 kilometers of the coastline, with serious repercussions for fisheries in the region.

Meanwhile, the Vung Ang 1 coal-fired power plant built with financing from the Japan Bank for International Cooperation (JBIC) and Sumitomo Mitsui Banking Corporation (SMBC) is already in operation, and there have been reports of environmental impacts from dust believed to be from this plant as well as negative health impacts since the plant started operating.⁴ It has been pointed out that Vung Ang 2 will have air pollutant emission concentrations several times higher than power plants built in Japan. Analysis by the Centre for Research on Energy and Clean Air revealed that emissions from this plant will be five to ten times above Japanese standards.⁵

Problems with the environmental impact assessment

Many problems have been identified with the environmental and social impact assessment (ESIA) report prepared by the proponent of the Vung Ang 2 coal-fired power plant.⁶ Independent analysis (for the details please see the report mentioned in the footnote 6) by the Environmental Law Alliance Worldwide (ELAW) found that the ESIA should be rejected due to serious flaws, among them being that it:

1. failed to consider alternatives to coal power to minimize negative environmental impacts;
2. used the incorrect air pollution dispersion model which makes the air quality impact predictions meaningless;
3. applied standards that are below international emission standards;
4. allowed for a method of handling ash that goes against international guidelines;
5. allowed for the discharge of thermal effluent above international guidelines; and
6. failed to conduct a proper assessment of impacts on marine species.

Risk of becoming a stranded asset

A March 2020 report by the UK think tank Carbon Tracker concluded that economic viability is questionable not only for new build but also existing coal-fired power plants in Vietnam, because the cost of new construction of solar power generation is already lower than

³ "Coal Phase Out" Climate Analytics (accessed August 2020) <https://climateanalytics.org/briefings/coal-phase-out/>

⁴ "GE says it's going green. Overseas, it's still pushing coal," Los Angeles Times (2-Mar-2020) <https://www.latimes.com/world-nation/story/2020-03-02/ge-green-overseas-pushing-coal>

⁵ "Vung Ang 2" Market Forces (accessed August 2020) <https://www.marketforces.org.au/research/vietnam/vung-ang-2/>

⁶ "Evaluation of the 2018 Environmental Impact Assessment (EIA) Report For the Vung Ang II Thermal Power Plant Project" ELAW, 2020 https://elaw.org/VN_VungAngII_2018EIARReview

operating costs of existing coal-fired power generation.⁷ Vietnam has high potential of wind power also and the planned site of Vung Ang 2 has very high potential.⁸

Also, many coal-fired power generation projects currently under construction or planned in Vietnam have been significantly delayed. The number of coal-fired power projects in this country is expected to decrease under its Eighth Power Development Plan (PDP8), so one can see that government of Vietnam itself is giving early indications that it intends to exit from coal.⁹

Amid rising concern about climate change and its impacts, there is a growing international wave of divestment from companies involved in fossil fuels. In particular, a growing number of financial institutions and insurance companies are revising their credit policies on businesses relating to coal-fired power generation and coal mining developments. In April 2019, a Norwegian sovereign wealth fund sold its shares in coal-fired power businesses, and one of those was Chugoku Electric Power Co.¹⁰ The business environment for coal power will become even more difficult in the future from the perspective of ESG investment and the Paris Agreement.

Questionable profitability

Hong Kong-based CLP Holdings (a joint venture with Mitsubishi Corporation) was originally one of the financiers of the Vung Ang 2 coal-fired power plant project, but withdrew from the project when it announced a coal exit policy on December 17, 2019. One after another, other members of the financing consortium withdrew from the project, including Standard Chartered Bank (UK), OCBC Bank (Singapore), and DBS Bank (Singapore).¹¹

Korea Electric Power Corp. (KEPCO) is considering investing but has not yet made a decision.

Korea has evaluated this project and found it would not be profitable. In Korea, any investment above 50 billion won by a public institution is required to undergo a pre-feasibility study to determine whether or not the project should go ahead. In the case of Vung Ang 2, the study was conducted by the Korea Development Institute (KDI), a governmental think tank.

The review found that for the period of KEPCO's expected involvement (2020 to 2048) the net present value of revenues and expenditures would result in a loss of approximately 158 million dollars (17 billion Japanese yen) for the project, of which about 79 million dollars (8.6 billion Japanese yen) for KEPCO. KDI reportedly stated that "KEPCO has not provided detailed breakdowns of project costs and has not yet conducted due diligence on the entire

⁷ Carbon Tracker. "How to waste over half a trillion dollars: The economic implications of deflationary renewable energy for coal power investments" (12-Mar-2020) <https://carbontracker.org/reports/how-to-waste-over-half-a-trillion-dollars/>.

⁸ Global Wind Atlas, <https://globalwindatlas.info/>

⁹ Không phát triển thêm dự án nhiệt điện than mới (14-Aug-2020) <https://nld.com.vn/kinh-te/khong-phat-trien-them-du-an-nhiet-dien-than-moi-20200814223636426.htm>

¹⁰ "Additional coal exclusions from the Government Pension Fund Global" (12-Dec-2016) <https://www.nbim.no/en/the-fund/news-list/2016/additional-coal-exclusions-from-the-government-pension-fund-global/>

¹¹ Joint Statement: Mitsubishi Corporation increasingly isolated on coal-fired power plant in Vietnam As major international banks and partners pull out, Japanese public and private sector must join the coal exit!, <https://www.foejapan.org/en/aid/jbic02/va/191220.html>, December 20, 2019.

project,” and indicated that additional costs could actually be incurred.¹² The loss of Chugoku Electric Power Co. will be of significant amount also.

Based on the points raised above, we are asking investors to divest from Chugoku Electric Power Co. to discourage it from financing Vung Ang 2, and to conduct engagement with the company regarding its coal and climate policies.

Sincerely,

Contact

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¹² Kyunghyang Shinmun, KDI: “KEPCO coal-fired power plant project in Vietnam expected to have negative earnings” (in Korean) (11-June-2020), biz.khan.co.kr/khan_art_view.html?artid=202006112054015&code=920100
Global Construction Review, ““Really losing face”: Pressure builds on Kepco to drop plans for potentially loss-making coal plants” , (24-June-2020)
<https://www.globalconstructionreview.com/news/really-losing-face-pressure-builds-kepco-drop-plan/>