

FROM:
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Japan Center for a Sustainable Environment
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Mekong Watch

December 17, 2020

Requests Concerning Coal-fired Power Generation Business of Mitsubishi Corporation

Dear Investors,

We are environmental organizations in Japan working on climate change and energy issues. We have been involved in advocacy work such as making proposals to the government, financial institutions, and companies regarding coal-fired power generation, the largest source of greenhouse gas emissions.

As new problems have been pointed out in the coal-fired power generation project in Vietnam in which Mitsubishi Corporation (hereinafter referred to as Mitsubishi) is involved, we would like to ask you to urge Mitsubishi to withdraw from the project. And if they still do not withdraw, we request you divest from the corporation.

Many people around the world are being affected by climate change. The Paris Agreement, an international framework for climate change countermeasures, aims to keep the global temperature increase well below 2 degrees Celsius above pre-industrial levels while pursuing efforts to limit the increase to 1.5 degrees Celsius. In order to achieve this goal, it is urgent to divest from coal-fired power businesses, and the construction of new coal-fired power plants is against this goal. Existing coal-fired power stations must also be closed worldwide by 2040¹.

Mitsubishi is a major general trading company with equity in 669 megawatts of coal-fired power generation in Japan and overseas (as of September 2019). In addition, it is currently promoting two coal-fired power plant projects in Japan and two in Vietnam (the total capacity of these four projects is 1,300 megawatts). Mitsubishi now has the most new projects among Japanese trading companies. The corporation is listed as a coal-fired power plant operator in the *Global Coal Exit List* (decarbonization list)² published by the German environmental NGO Urgewald, which covers companies from around the world involved in the coal business.

¹ Climate Analytics “Coal phase out” <https://climateanalytics.org/briefings/coal-phase-out/>

² Urgewald, Global Coal Exit List, <https://coalexit.org/>

Mitsubishi announced that it would not develop new coal-fired power plants in principle, with the exception of Vung Ang 2 and Vinh Tan 3 in Vietnam, and Nakoso and Hirono in Japan.

Regarding Vung Ang 2 in particular, the following new problems have been pointed out:

1. Questions about the profitability of the business

When Korea Electric Power Corporation (KEPCO) was considering its participation in the project, a pre-feasibility study by the government think tank Korea Development Institute (KDI) concluded that the total project loss, calculated by net present value of revenues minus expenditures, would be 158 million dollars (about 17 billion Japanese yen) of which the loss for KEPCO's share for its expected involvement (2020 to 2048) would be 79 million dollars (95.8 billion won, or about 8.6 billion Japanese yen). These numbers were calculated before due diligence on the business as a whole³, which suggests that there may actually be additional costs.

Furthermore, a number of projects currently under construction or planned for coal-fired power generation in Vietnam are far behind schedule. The number of coal-fired power projects in Vietnam is expected to decrease under the country's Eighth Power Development Plan (PDP8), so one can see that the government is giving early indications of its intention to exit from coal.

2. Doubts about environmental impact assessment

It has been pointed out that there are various problems in the environmental and social impact assessment (ESIA) report on Vung Ang 2 prepared by the operators. Independent analytical research⁴ by the Environmental Law Alliance Worldwide (ELAW) concluded that the ESIA:

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

ELAW argues that an ESIA with these problems should not be accepted.

3. Increased burden on Vietnamese citizens

³ KDI "KEPCO's Vietnam coal-fired power plant project, negative profits expected" (Korean) biz.khan.co.kr/khan_art_view.html?artid=202006112054015&code=920100

⁴ Environmental Law Alliance Worldwide (ELAW), Evaluation of the 2018 Environmental Impact Assessment (EIA) Report For the Vung Ang II Thermal Power Plant Project, April 2020 https://elaw.org/VN_VungAngII_2018EIARReview

An analysis issued in September 2020 by U.S. think tank the Institute for Energy Economics and Financial Analysis (IEEFA)⁵ identified financial risks for state utility Electricity of Vietnam (EVN), which would purchase the electricity.

One factor was the electricity purchase contracts that would require it to guarantee power purchases at fixed prices from coal-fired independent power producers (IPP). The report points out that while EVN might be able to raise electricity tariffs to limit its debt risk, public resistance may not be avoidable, and considering the current socio-political realities of Vietnam and the economic revival from COVID-19 impacts, the tariff increase assumption should be revisited. Also we need to note that even if EVN were able to raise electricity tariffs, the ultimate burden would fall on electricity consumers in Vietnam.

Investors should not continue to invest in companies that are willing to build costly and polluting coal-fired power plants when cheap and clean renewable energy is possible in Vietnam.

4. Growing international pressure

As a result of climate change initiatives, an increasing number of investors are engaging with companies that continue to invest in coal-fired power generation, to address concerns about their coal and climate policies.

BlackRock, the world's largest investment institution, reported in November that it was concerned about KEPCO's continued operation in Vung Ang 2 and a separate Indonesian project were not aligned with its climate strategy, and that Blackrock would continue to engage with KEPCO on the financial and environmental risks of these two projects⁶.

Nordea Asset Management, the largest institutional investor in Northern Europe, revealed in October that they, along with Amundi, AP7, Allianz and other institutional investors, had sent a letter to public financial institutions and companies involved or planning to be involved in Vung Ang 2⁷. The letter was also addressed to Mitsubishi.

The letter points out that Vung Ang 2 is not consistent with the Paris Agreement and the UN Sustainable Development Goals (SDGs), and raises concerns about the economic viability of coal power in Vietnam, where the cost of new renewable energy is lower than newly built coal power plants. The letter also refers to the analysis by ELAW. The letter states that companies

⁵ Institute for Energy Economics and Financial Analysis (IEEFA), Vietnam's EVN Faces the Future: Time to Get Renewables Right, September 2020

https://ieefa.org/wp-content/uploads/2020/09/Vietnams-EVN-Faces-the-Future_September-2020.pdf

⁶ BlackRock, Voting Bulletin: Korea Electric Power Corp., November 2020

<https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-kepco-nov-2020.pdf>

⁷ Nordea Asset Management, Enquiry regarding the Vung Ang 2 coal-fired power plant project in Vietnam, October 2020

[https://www.nordea.lu/documents/static-](https://www.nordea.lu/documents/static-links/Nordea_CEO_letter_on_climate_coal_phase_out_Vung_Ang_2.pdf/)

[links/Nordea_CEO_letter_on_climate_coal_phase_out_Vung_Ang_2.pdf/](https://www.nordea.lu/documents/static-links/Nordea_CEO_letter_on_climate_coal_phase_out_Vung_Ang_2.pdf/)

must actively tackle climate-related issues, and that Vung Ang 2 has high climate-related, financial, and reputational risks, and strongly urges the recipients “to make a public commitment to end all forms of involvement in new coal projects worldwide.”

As the Paris Agreement enters its implementation phase, we hope that you will increase your efforts to achieve the Paris Agreement goals.

To be specific, we are calling upon you as an investor to do the following:

- From the standpoint of a shareholder, urge Mitsubishi Corporation to withdraw from the Vung Ang 2 coal-fired power generation project. In particular, we urge you to submit a shareholder proposal at a general shareholders’ meeting requesting the company to withdraw from the project.
- If Mitsubishi Corporation does not withdraw from the project even after the above engagement, we urge you to divest from the corporation.

We would appreciate it if you would send us comments or responses to our requests by January 18 to the following person in charge:

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Sincerely,