(DRAFT) OUTCOME SUMMARY
AEPF Study and Strategy Seminar on Fossil Fuel Finance
September 3 -7, 2018, Bangkok, Thailand

Seminar participants from: *ASIA - China, South Korea, Japan, Indonesia, Philippines, Vietnam, Thailand, Cambodia,Nepal, India, Bangladesh, Pakistan; EUROPE – Friend of the Earth International, Urgewald, BankTrack, ODI; AFRICA - Zimbabwe*

Opening& Introduction

Lidy Nacpil, APMDD

Three Elements to be addressed in the seminar:

- Address financiers of coal and fossil fuels
- Engage and confront institutions as institutions, not just on a per project basis
- Challenging Asian financiers, some of the world's biggest coal financiers (Japanese, Korean, Chinese financiers)

Session One: Overview on Fossil Fuel Finance

Processes, Concepts, Terms, Categories of Major Players

Presenter: Sara Jane Ahmed, IEEFA
https://www.powermag.com/report-investments-in-coal-risky-billions-in-assets-could-be-stranded/

Summary of Presentation:

Trends in Project Finance for Coal-fired Power Sector

- European and North American banks retrenched from financing new coal fired power projects
- Local banks and regional banks are getting involved
- Liquidity constraints following the financial crisis give way to more export credit agency financing and regional banks participation; unfortunately these are known later down the line
- Moving from underwriting and syndicating model (spread thin, longer time) to club deals (faster, less banks, private equity group together to acquire)

Global Investor Sentiment:

- Renewable energy is deflationary and will only get cheaper over time
- Globally, more than 800 institutions, with total investments valued at US$ 6T are divesting from fossil fuels
- 17 of the largest insurers have divested approximately US$ 30B from coal companies since 2015

The Electricity Transition

- Rapidly declining costs and technological advances in renewable energy, energy efficiency and distributed storage create an enormous opportunity to replace coal in the next 10-20 years

Stranded Assets

- Arise for many reasons:
- Fuel and/or technology becoming uneconomical or obsolete
- A power plant being built in the wrong location and unable to dispatch
- Excess capacity due to inaccurate demand forecasts or a surplus of reserve power
- Higher than anticipated construction costs
- Operational inefficiency of the power

- Long-term fuel supply contracts exceeding demand
- Competition from cheaper alternatives

RE cannibalizes the utilization rate of coal plants

- 2 largest coal markets in the world – China and India
- India's operating assumption is 80% PLF (plant load factor, utilization)
- India's over last quarter 2017 was at 54% PLF
- No one forecasted 47.5% PLF 900MW for China

- Sensitivity analysis
- Coal plants can't operate at 50-60%, it damages machineries
- India – US$ 38B stranded assets
- Indonesia – US$ 76B liability
- Philippines – US$ 20.8B potential

Proposed Strategies for Campaigning

- One of the possible approaches to use in campaigning: <u>The reality is coal is already a stranded asset</u>

- In the case of countries like the Philippines, consumers cannot choose what kind of electricity they can access
- Consumers should be able to afford the power the utility company is providing
- Doesn't make sense for utility companies to have long-term high cost energy like coal
- Require new technology to make this shift → part of the campaigning is to make sure that technology is acquired
- Not something to be afraid of: More investment, more jobs, more growth
- Campaign is not simply no to coal but also looking at and rescinding PPAs
- Renewable energy → looking for investors
- GDP in SEAsia growing at 6-7% per year, in ten years electricity needs will double
- If the variable cost of coal is higher than renewables, just more sense to pay for capacity payment, pay for renewables, and shut down the coal plants
- Govt says that projects may be viable at 45%, need more coal because there are different companies producing coal, etc.
- Best thing might be to do a comparison between different technologies in the area
- Do a model of how much per kilowatt hour per technology to make sure that the best/cheapest power is there
- Re: solar technology, difficult because of land issue → you can change the location, you can place it in the ocean or on rooftops; hydropower can be put into old coal mines, like pump storage → think about *efficient use of land*, least cost technology for our demand

- Coal is considered cheap because of how people in communities externalize a lot of the costs; take a careful look at how renewables are presented as well; for example women in Uganda are pushing back against hydro, etc because of issues of landgrabs, producing methane, etc. Lots of challenges in terms of how to maintain mini-hydros in Zimbabwe etc. Challenges of viability, social costs, what are clear propositions?
- Issues of just control, just ownership, management, etc
- How to develop our arguments further → how is renewable energy viable from a financial perspective
- As campaigners, trying to use each and every argument possible
- Taking a closer look at this aspect, need to meet challenges and handle the narrative carefully
- Cost comparisons do not take into externalities of coal, purely on generation cost

- Electricity sector is experiencing a major reconstruction of infrastructure, institutions and choices

- Old model: monopoly franchise with regulatory structure that assumed high degree of vertical integration and reasonable degree of certainty
- Relevant/transition: How do we achieve a least cost flexible system (generation, transmission, distribution)?
- Expand the lens: Finance is political, not just policy
- Power costs hinders growth of the manufacturing sector across all industries
- Least cost power system is central to economic growth and development
- Fossil fuel subsidies and electricity-sector losses are a growing drag on economic growth, etc
- Support energy diversification of supply and access green bonds
- Green bond market can also finance investment opportunities
- Outside Ministry of Environment and Ministry of Energy, can move on to our Regulators (Securities and Exchange Commission and Central Bank)

- Regulators are supposed to take risks out of systems

- Can the financial system afford to get stranded asset risks wrong?

- Time for regulators to study the risk profile of stranded asset risk before it affects financial stability
- Ex. India 38bn in stranded assets, Philippines 20bn in potential stranded assets (bigger than Asian Financial Crisis)

- India case: banks committed more than 38bn dollars and all was lost → one of the biggest absorbers of the loss was the State Bank of India

- Parliamentary Committee was formed in order to rescue these assets
- 15GW of gas plants, but gas has gone up, so looking at a subsidy of gas to make it accessible to consumers
- Corruption

Global Coal Exit List, the Top 120 Coal Plant Developers and their Financiers
Presenter: Cristina Beberdick, Urgewald
https://urgewald.org/medien/ngos-release-list-worlds-top-coal-plant-developers
Summary of Presentation:

- How has the Coal Exit List been useful?

- Double-checked data
- Concentrated campaigning

- Norwegian government used Industry Classification Benchmark

- Indicators good at identifying coal mining, but coal plants are considered utilities and not considered coal financing

- Coal Value Chain
- Dug through reports and websites of over 3000 companies to identify who belongs on the GCEL
- Coal Industry is bigger than previously thought
- 775 parent companies

- 2/3 mining and power
- 1/3 other → service companies

- 1000+ subsidiaries and joint ventures

- GCEL represents
  - Mining
  - Power
  - Services

3 Criteria
- Bulk of the industry
- Top of the industry
- Company of the industry’s expansion

1. Percentage Criterion
    - Coal share of revenue or coal share of power production >30%
    - Coal power Giants
    - ➢ 31 companies (lots of China, Korea, Japan, India, Germany)
2. Absolute Criterion
    - Annual coal production >20mt
    - Installed coal capacity >10GW
    - ➢ These are initial criteria, might revise over time
    - ➢ 30 mining companies are responsible for half of the world's annual coal production

3. Expansion Criterion
    - Expansion plans for coal-fired power plants of >300MW
    - Expansion plans for existing or new coal mines

Criteria for Companies to be a Top Coal Plant Developer

- All companies that are planning to build more than 3000MW of new coal power capacity
- Most aggressive companies for whom coal is part of their business strategy
- Companies planning to build coal plants in countries that do not have any coal power
- These 120 companies are responsible for 2/3 of planned coal plants
- (Data have been extracted from the project based CoalSwarm Database)
- Need to broaden the horizon so that more companies are considered for divestment

Investors and Banks vs. Paris

- Bank loans and underwriting US$ 630 b and US$ 140 b
- Investors began approaching Urgewald regarded the GCEL

Proposed Strategies for Campaigning

- Aligning campaigns more globally → Fossil Free Finance Campaign, working with Japanese campaigners/organizations
- Update: 120 Coal Plant Developers List (4 October 2018)
- November 28, 2018 – Publish new finance research
- Summer 2019: Update Global Coal Exist List
- Looking for stories of different countries with regard to coal, coal plant developments
- Making data more available

- Not just all private, governments do invest in coal (Japan, etc.)
- Asia's Dirty Dozen → now Asia's Dirty Companies, adding NTC and other companies
- List of priority companies
- What is the stage of investment decision in many of the expansion cases?
- Don't have the access to the data in Bloomberg, etc. Profundo does but it's better for banks, not so much for investments and shareholding; really like a black box.
- Research is focusing more on per company

- **IDEA FOR PLANNING**: For campaigners on the ground, look at the power and coal projects → make the link between institutions and coal projects. Point out which companies are financing which projects, which projects are financed by which projects
    - Data is there, just need to organize it in a manner that is useful
- Who is next in the "crosshairs" in terms of investments? What about banks?

- Urgewald looking at the next larger investor in Europe (ABP, largest pension fund in Europe), working with Both Ends and Fossil Free Netherlands to get the gears moving

- When it comes to banks, the story is a little bit different, but still use the list and the narrative of the list but take smaller chunks → Expansion companies, target loopholes, but lately have been focusing on investors

- A lot to learn from institutional engagements in Europe, an area that we need to get ahead in in Asia. Look for people and mechanisms of getting to their decision makers, moving investment away from coal

- How to use the list against banks? 350 Japan has used this versus Japan's 3 biggest banks, showing their risky lending, showing also that insurance companies are pulling out. List is very useful as the information is not publicly available

Banks and Coal /Fossil Fuels – Landscape, Developments, Instruments for Campaigning
Presenter: Grieg Aitken, Bank Track
https://www.banktrack.org/article/report_finds_major_banks_ramped_up_fossil_fuel_financing_to_115_billion_in_2017
Summary of Presentation:

- BankTrack – focuses on private commercial banks around the world, collaborates with partners in all those regions
- Dodgy Deals – fossil fuels, palm oil, forestry, other thematic issues. Encourage other groups to get in touch re: Dodgy Deal campaigns they're working on to put a spotlight on the groups involved
- Banks' sectoral policies on energy, particularly coal
- Theory of change – Naming and shaming tactics with banks, targeting reputation → works with Western banks, but does this tactic have limitations with Asian banks? How to frame campaigns and public approaches

The landscape

- New investments in fossil fuels continue to more than double those in renewables (World Energy Investment 2018, International Energy Agency)
- Between 2015 and 2017, 36 global private sector banks provided US$ 345B (minimum) for fossil fuel projects and companies

The long goodbye to coal

- 19 banks have ended direct finance for new coal mines worldwide
- 16 banks have ended direct finance for new coal plants worldwide
- 7 banks have restricted indirect finance to coal plant developers
- 11 banks have restricted indirect financing to coal utilities
- 4 banks have ended or restricted the selling or buying of coal assets

- Doesn't include Japanese banks which moved over the summer

After Paris, started to see an acceleration of banks pulling out of coal

US banks

- Big six US banks massively increased financing for coal mining in 2017 by more than 3000% by taking advantage of huge loopholes in coal mining policies (Rainforest Action Network)
- There's a lot happening under the surface, away from project finance/direct finance
- Heavy bias towards underwriting from many institutions (esp. Asian banks)
- Western banks increased their financing to coal plant developers after the adoption of the Paris Agreement

Japanese Banks

- Japanese banks began to move in the last few months → ruling out direct finance from everything BUT ultra-supercritical technologies (SMBC, MUFC, Mizuho)

- SMBC would be definitively ruled out of 27% of its pipeline projects by capacity
- MUFG would be ruled out of 31% of its pipeline projects by capacity
- Mizuho would be ruled out of 40% of its pipeline projects by capacity

- July 2018: Sumitomo Mitsui Trust Bank has also stated that it will stop providing project finance for new coal-fired power stations

UK banks

- HSBC came out with a new policy in late April to stop financing coal popwer stations in many countries, as well as oil sands and Arctic offshore drilling stations
- Loophole: Will stop financing new coal-fired power stations in all countries, except for Indonesia, Bangladesh and Vietnam, where it will continue to do so for five years if independent experts say there is no viable alternative
- HSBC will review its energy policy on a rolling annual basis

- Standard Chartered undertaking a review of its coal policy
- Some worrying indications that SC is looking at following HSBC and making exceptions
- SC policy to be finalized within the next 2-3 weeks, might be good for this meeting to produce a simple statement: 1) To call on SC to step out of financing for 3 Vietnamese coal plant projects, 2) To make sure SC pulls out of coal financing as a whole globally

Annual Fossil Fuel Report Card (available on website)

1. China Construction Bank
2. Royal Bank of Canada
3. JPMorgan Chase
4. Industrial and Commercial Bank of China (ICBC)
5. Bank of China

Proposed Strategies for Campaigning:

- For Chinese banks, naming and shaming is very important. Looking forward, look at not only coal financing but also renewable energy → might be helpful for Chinese and other Asian banks. International concerns are very important for Chinese banks, pay more attention to risks from host country

- For Japanese banks, Market Forces report may be too optimistic. Good to hold the bank accountable in public, but regarding internal discussions in the banks don't be too optimistic

- Have to jump on these policy moves and try to get as much out of them as possible when they arrive

- Re: Fossil Banks No Thanks, why just target private banks? In Korea the public financial institutions are more important/key players in coal.

Public Financial Institutions, Public Subsidies for Coal and Fossil Fuels
G7 and G20
Presenter: Leo Roberts, ODI
https://www.odi.org/publications/11131-g7-fossil-fuel-subsidy-scorecard

Landscape

- OECD export credit group has pledged to stop financing coal
- WB Group has committed to end finance for upstream oil and gas
- Canada, France, and Italy appear to have ended all public finance for coal mining; Canada, France, and the UK and the US also appear to have ended international public finance for coal-financed power (although this may change due to recent policy revisions in the US)

• **Theory of change (ODI)**

- Transparency (2014-2018)
- Accountability and First movers (2018-2020)
- Leadership and Action (2020-2025)

• **Key wins (Phase 1)**

- Significantly increased media coverage of negative impacts of FF subsidies
- G20 has retained a focus on fossil fuel subsidy phase out
- Increased scrutiny of the G20 governments' own subsidy peer review processes
- OECD considering the impact of a wider set of support measures to fossil fuels
- Significant uptake of our data sets

• **Key wins (Phase 2)**

- Fiscal support → small number of G20 have ended a subset of support measures (although sometimes adding others)
- France and Italy appear to have ended all fiscal support to coal mining
- Increased accountability within the EU for meeting 2020 phase out deadline

Where we want to be (ODI):

2020

- More examples of governments ending support to fossil fuel production
- Influential studies documenting phase out of wider range of forms of government support
- International public finance limitations move beyond coal-fired power to end support for all fossil fuels
- G20 end all fossil fuels subsidies

2025

- Full phase out of government support to fossil fuels exploration and to coal production

2030

- End goal of no government support to fossil fuels production

If we could only do 3 things in the next 2 years:

1. *Show how we can shift state owned enterprises*
2. *End international public finance for exploration*
3. *Link to and support other campaigns and goals*

2019 is a big year:

- 10 years since 2009 G20 commitment to phase out FFs
- Japan chairing G20 with meetings throughout June

How much interest is there in the G20, in a G20 scorecard, etc?

- *Scoring has only been done for G7, but interested in doing one for G20*
- *Japan, Korea, China, India, and Indonesia →subsidizing fossil fuels*
- *Subsidy is not just investing money but also tax incentives, tariffs, etc*

- *Subsidy phase-out has to be as aware of just transition as fossil fuel phase-out*

Porposed Strategies for Campaigning:
Details about what kind of demands can be made need to be made at the country level

- G7 fossil fuel subsidies: China, Germany, Mexico have done voluntary peer review in G20 →
- can you assess peer review report and see whether they cover all types of subsidies;
- re: China report, China didn't qualify many of its qualitative points. Argentina, Japan interests in joining peer review on fossil fuel subsidies?
- Qualitative is difficult, would need more country partners

Proposed Strategies:

- Peer reviews of subsidies no later than 2019
- Should establish country level plans for fossil fuel subsidy phase-out
- G7 should look to leadership within the EU Member States who have already set an earlier deadline for ending fossil fuel subsidies
- G7 country-level phase-out plans should ensure that mechanisms with the stated aim of assisting the energy transition do not support fossil fuel production and consumption

• **Seems to be better to focus on G20, wider range of countries and bigger economies**

- G20 provides US$444B a year in subsidies to fossil fuel production → 286B investment by state-owned enterprises

ADB, AIIB and WB
Presenter: Rayyan Hassan, NGO Working Group on the ADB
https://www.devex.com/news/adb-s-take-on-dirty-energy-93764
https://th.boell.org/en/2018/11/20/exposing-clean-energy-myths-adb-and-aiib

- ADB 3rd largest public international financier of coal-fired power plants investing in US$ 3.9B in 21 projects
- ADB Energy Policy 2009 follows the IEA definition of "renewables" which include biomass, hydropower, solar, wind, ocean and geothermal energy
- "ADB will encourage DMCs to adopt cleaner technologies that are shown to be technically feasible and economically viable."
- Large-scale hydropower is listed as RE; ADB doesn't have a decent, clear approach re: RE
- ADB will "selectively support coal-based power projects if cleaner (CCT) technologies are adopted"
- ADB Project disasters: Naga Coal Powerplant, Nam Theun 2, Tanahu West Seti, Phulbari Coal, Chitarum; ADBs last few investments in coal: Jamshoro Pakistan, CHP5 Mongolia (in consideration)

- THINKING STRATEGICALLY: ADB at this point is not ready to do big coal-fired power projects through sovereign loans. But still have the ability to do so without explicitly saying
- ADB's role in Energy Sector Reform
  - ADB creates the atmosphere before projects step in, through Technical Assistance Loans
  - ADB financed USD 300 million for reconstructing the power for the Philippines that led to EPIRA

ADB Energy Policy 2009 disconnect with the Paris Agreement

- Not Paris compliant; no overarching sections to address emissions standards, no indicators, no energy mixing, etc.
- Fossil Fuel Finance → ADB will not finance coal EXCEPT for captive use by thermal power plants; and will invest in coal-related ventures, etc. if found to be clean
- Bank commits not to finance oil field development "except for marginal and already proven oil fields", LNG, including oil and LNG terminals, etc.

- Primary reason for ADB's intervention in the coal industry is to help start commercialization of the coal sector in member countries, and could serve as a catalyst for encouraging and developing good practices
- ADB investing in big gas projects lately

ADB Strategy 2030

- 7 operational drivers: Climate change, gender, agriculture, fragile conflict zones, etc. (Energy not explicitly stated)
- Chapter 7: Expansion of private sector operations
- Trying to transform public finance into private sector operations → want to attract private financing
- Target: 1/3 of all ADB operations through private sector 2024
- (v) improving the risk profile of projects using ADB credit enhancement and risk management products → RISK TRADE
- Private sector is not willing to invest in large infrastructure → these are models to get investors who are not interested

AIIB Energy Sector Strategy, ESS 2017

- Started 2015
- AIIB released its 2nd Energy Sector Strategy and was finally approved during the AIIB AGM in June 2017
- Pledged a global governance structure based on the 2030 Agenda for Sustainable Development
- Language is not secure
- AIIB has financed one coal-fired power plant in Myanmar through a portfolio fund held by IFC
- Strategy does not provide a clear guideline on how AIIB will achieve its prescribed goals of COP 21 agreements and SE4All
- Blatant support for private sector investment in energy distribution and energy efficiency and its implications on access to energy by the poor
- Generalizing data to suggest Solar and Wind are less viable than Hydropower in Asia as an RE option
- Alarming support for fossil fuels Coal, Gas and Oil as viable investment options
- AIIB mentions Local and Regional Pollution Abatement as a strategy with no guidelines, possible solutions, or technologies offered
- AIIB not considering Nuclear Energy but still retains a caveat to do so for exceptional circumstances
- Energy investments focus on needs of consumers within the context of 'justifying investments in processing, transport and distribution' in final use of energy (NOT needs of those without access) → final consumer is transport sector, not user

Forum Radar: AIIB Approved Projects around Energy Investments

- India: Bangalore Metro Rail Project
- Asia: IFC Emerging Asia Fund
- Bangladesh: Natural Gas Infrastructure and Efficiency Improvement Project
- Azerbaijan: Trans Anatolian Natural Gas Pipeline Project (TANAP)
- Myanmar: Myingyan Power Plant Project

- None of the consultations happened

- AIIB Accountability Framework
  - BOD will allow AIIB President to approve projects up to:
    - USD 200M in case of sovereign-backed financing or guarantees
    - USD 100M in case of non-sovereign bank financing or guarantees
    - USD 35M in case of equity investments

- NO grievance mechanism, NO information disclosure policy yet
- Over time the BOD will increase capacity for project approval through the AF (subject to review in 3 years)
- AIIB can finance de-facto governments
- AIIB can finance transboundary waterways
- AIIB HQ is in Beijing

- Forum Campaigns
  - Project monitoring and Board and ADB HQ and AIIB HQ engagement 2018: stand alone, co-financed, and infra funds in Energy Sector Investment
  - BRI, MFD, Billions to Trillions – Mega Infra Asset Class Framing: Reclaiming the Sustainable Infrastructure Narrative
  - Demand for Open Public Spaces and Full Transparency
  - Strengthening Social Protection and Safeguards for Pepole and Environment from IFI investments
  - Energy Campaign: Long term strategy on Decarbonizing ADB and AIIB, Bali and onwards… Regional, national and local advocacy plan…

- Privatization of public funds (WB) → blended finance
  - ➢ Want loans to be approved faster (sovereign loan – 1.5 yrs, private sector – 3 months)
  - ➢ Can't stop the money, BUT can we get them to buy better things?

World Bank

- E3G
- Big Shift Coalition https://bigshiftglobal.org/research-papers
- Don't know if WB has implemented their commitment re: oil and gas
- WB committed on carbon pricing
- IFC committed to track coal exposure
- Coal project financing → haven't changed coal policy, but revised IFC's intermediary lending policy (Clients would have to track their coal exposure)
- PMCJ filed 19 cases against IFC-funded projects (through intermediaries) – IFC has agreed to hear/investigated 11 of 19 complaints (11 are direct loans extended by RCBC which has IFC equity, but the 9 projects have IFC equity but in the form of bonds) https://www.11.be/en/news/item/world-bank-secretly-funding-coal-explosion-in-asia

Session Two: Mapping of Campaigns on Coal and Fossil Fuel Finance; (including Results of Asian Energy Strategy Meeting)

CHINESE FINANCING OF COAL AND FOSSIL FUELS

Presentors:
Wawa Wang, Bank Watch;
Nan Zhang, WWF China,
Bai Yunwen, Ghub China
https://www.bloomberg.com/news/articles/2018-10-04/china-s-funding-for-coal-draws-scrutiny-as-climate-concern-grows
Summary of Presentations

Status of China's outbound financing
- Prominent State agenda (China's going global strategy, SOEs access to financial incentives and policy support)

- China's OFDI to Asia, Latin America, and Africa experienced double to triple digit growth from 2005-2011 making China significant and growing provider of international development finance
- AIIB/NDB and China's development funds bring new capital to infrastructure investment in developing countries
- Significant influences to global environmental and climate trends, for better or worse; importance of ensuring that strong environmental and social performance of China's financial flow are in place to guide the investments
- US$ 38B of Chinese finance has gone into overseas coal power projects over the last 10 years
- Most went into 3 countries: India, Indonesia, Vietnam
- In line with investment trends in this region
- Recently China has begun diversifying their investments (Pakistan, India, Russia) → more than 50% of China's overseas coal financing

Four major types of Chinese financial institutions that are providing financial support for BRI:

1) Global multilateral development financial institutions, such as World Bank
2) Regional multilateral development financial institutions such as ADB, China-led AIIB, BRICS Bank, as well as EBRD
3) Chinese national policy and development banks, such as China Development Bank and Export-Import Bank of China
4) Commercial banks and other financial institutions in several countries, including Insurance Investment Fund, China-ASEAN Investment Corporation Fund, Silk Road Fund, etc.

China moving up the global value chain

1. 'Going out' and 'One Belt One Road' with China at the center piece of international infrastructure development on land and by sea, exporting manufacturing overproduction and technology to enable big ticket connectivity projects in energy, resource extraction and transport
2. It is financing coal in countries the have a rapid increase in electricity needs and existing coal infrastructure but under-regulated in emissions regulations and often without adequate environmental and social regulations and oversights
3. Financing can be in the form of project finance via buyer's credit – coal plants, parts, mines, associated facilities – equity investments, credit swap, and majority shareholding in SOEs with a heavy coal portfolio, etc.

China's Energy Transition and Green Finance Policies in BRI Initiative

- China is the largest energy consumer, largest coal consumer
- China: 23% of global energy consumption, 50% coal
- China: rich in coal, poor in natural oil and gas
- Chinese energy mix → 60.4% coal, 19.4% oil, etc.; Renewables is only 3.5% → increased rapidly in the past 10 years
- Chinese Economy depends heavily on fossil fuels
- Peak reached in 2013
- Percentage decreased 73.6% to 60.4% in past ten years
- Coal consumption rose after three year decline (0.4%) → perhaps due to poor production of hydropower in the last year
- China's energy development 5-year plan
- Set energy consumption cap and coal consumption cap
- Coal consumption cap → 4.1 GTce
- Chinese government has started to promote energy transition from coal to renewables; need to accelerate the trend

Institutions involved in BRI

- China's policy banks and large-scale commercial banks
- Newly established MDBs

- Sovereign wealth fund
- Other corporations

- End of 2016 – CDB had extended lending to support projects of infrastructure, production capacities, energy and resources and social development in countries along BRI with total amount of over USD 160B and loan balance over USD 110 B

- GEI (global environmental institution) – by end of 2016 China has been involved in 240 coal-fired power projects in 25 of the 65 countries along BRI, a total installed capacity of 251,054 MW, concentrated in South Asia and Southeast Asia

- Contracting is a major form of Chinese participation in BRI coal power projects (52.50% of projects) → if contracting, then China's influence may not be as high as expecting
- Most companies engaged in this project are the 5 major state-owned enterprises, involved in over 2/3 of the 240 projects

- G20 members provided at least 38B USD in public financing for overseas coal projects from 2013 to 2016

- Chinese policy banks mainly provided 45B USD on overseas coal financing from 2000 to 2017, with most in Asia

<u>General Discussion on Strategies and Action Points (</u>including from Asian meetings on Chinese Finance)

- Engage policymakers to develop E&S guidelines to govern investments, risk management capacity by countries, sectors
- Engage companies and financial institutions to develop and implement the policies
- Enable Chinese CSOs to create demand for stronger policy making and implementation, strengthen communication between Chinese stakeholders and affected communities

Host countries

- Work with CSOs of host countries to identify the risks and problems facing Chinese financed projects and financing potentials to green sector
- Using the language of risk with Chinese companies
- Help countries to strengthen national and regional environmental regulations and standards

International front

- Strengthen the investment standards setting of global development financing, shaping international good practices
- Engage China involved AIIB/NDB to improve robust and accountable safeguards and sectorial policies

Proposed Strategies on Engaging with Chinese Finance

A common approach and strategy incorporating the theory of change of GHUB but also other groups from outside China

- Three tracks of work:

1) Approach IN COUNTRY (ex. China) → led and developed by groups within that country
- Domestic front
- Overseas front
2) Approach of HOST COUNTRY → work of the organizations inside the country that is the recipient of investment and financing

3) Approach of INTERNATIONAL FRONT → what can be done in the global and regional arenas

- Global
- Regional

- How to influence and reshape countries' investment policies
- Investment that happens in large projects are very complex
- Engage with Chinese consulates/embassies; if the message is passed back, there will be coordination among key ministries
- Can also: if aware of which state-owned company is handling the project, trace back to mother country and write directly to them through email. They care about their reputation
- CDB – project team sits in different offices, different provinces
- China EXIM Bank – has regional desks
- Good to write detailed analysis of risks, etc of project
- Can write, may not necessarily respond but it is taken seriously
- Work on establishing a dialogue with embassies in at least 5 countries

- Advisory group to CDB, includes Barclays and BNP

- Engagement with embassy should be a 3-pronged approach: Zimbabwe example → Chinese embassy was very engaging, if there are HRVs they can respond using their safeguards; 3 areas: embassy, government, and in China
- CDB → 2.5% + LIBOR → 7.8% per annum, not cheap but attractive because no balances/no governance/no questions asked → need to challenge governments on the investments made
- Local banks can be targeted, as the funds are coursed through a local bank
- How to articulate good and bad lessons learned from other banks, and how to locate it with Chinese banks?
- WWF, Chinese groups are trying to translate high-level conversations into actions → with programs, workshops
- Bankwatch experience → banks are FINANCING ARMS of Chinese government. Although there is need to check institutions, also need to engage very much with host governments. Recommend partnering up with think tanks, other institutions to open up the space.
- Push for information disclosure from Chinese government and host countries
- Bangladesh plans 32 coal plants along the coast → 13 financed by China

Session Three: Japanese and Korean Financing of Coal and Fossil Fuels

Overview of Trends in Japanese Financing of Fossil Fuels and Major Players

Presenters:
Yuki Tanabe, JACSES
Shin Furuno 350.org;
https://350.org/press-release/energyfinanceinjapan2018/
Summary of Presentations:

- Public Financing Policy
- Environment Minister and Foreign Minister raised the issue of JBIC financing coal at the Cabinet after COP23
- After discussion, Government committed to apply OECD rule for all public financing (Jan 2018)
- May-June 2018 – private banks and insurance companies adopted policies on coal financing
- July 2018 – Government adopted a new Strategic Energy Plan including OECD rule-based approach
- JBIC didn't actually change anything
- JBIC claimed that requests for interests for all projects

- Many exceptions, policies only applicable for project financing, not investments
- Stronger commitment is needed
  - OECD Arrangement has to be reviewed by June 2019
  - G20 is a framework which includes China, Korea and Japan as members. Will be held in Osaka in June 2019 → key opportunity for civil society engagement
  - Government is planning to finalize the Long term strategy (LTS) by G20
- Generally, funding for power companies in Japan is based on corporate credit not direct financing
- At the moment there are new nuclear power plants for construction in Japan. Thus, currently coal is higher

- Are there other factors for why private banks are starting to move, besides campaigning?
- Government stance has a big influence, investors, but campaigning has also had an impact
- When CSOs first began to challenge the banks on funding/shareholding, it came as a bit of a shock. First time targeted on any sort of climate issue. Also: distributed information to shareholders about environmental and social risks that the bank was investing in. Reached Board-level meetings, heard from inside that that action served to kick start a lot of conversations within the banks. Campaigning created the environment for these conversations. Protesting outside Mizuho, but got close enough to hand out hundreds of flyers to shareholders. Target now is Mitsubishi.

- JPIF funding? Is there traction in the campaign against public institutions in Japan?

- JPIF under law cannot discriminate/choose investments. Have had some discussion with them but at the moment it is very difficult to engage directly. If changing the JPIF then need to change the law first

Campaign strategies on Private Financing in Japan

- Private corporations are sensitive about public image
- Banks have a respected status in Japan
- Due to shrinking population, banks are running out of businesses to lend to, are aggressively lending overseas. Image internationally is one thing they're worried about

- Data is very important
- 197 financial institutions → financing (loans, underwriting, bondholding, shareholding) → 23 fossil fuel + nuclear companies (January 2011 to April 2016) → helped identify targets, helped identify 45 institutions that were fossil and nuclear free banks
- Petition delivery, public actions – targeting shareholder meetings. Directly targeting shareholders
- Divestment → encouraging people to divest bank accounts from banks funding nuclear/fossil fuels and invest into fossil and nuclear free banks – 13 groups (6.5M USD so far)
- Media coverage → more media interest in Japan's coal finance
- Want to highlight banks that are fossil- and nuclear-free → creating clear alternatives for people to choose
- Inside + Outside + International
  - Keeping up the pressure
  - Reputational risk (outside), Engagement (inside), National v International coordination → have been able to get a regular dialogue with big 3 banks

General Discussion on Strategies and Action Points

- Coordination
- Divestment, Shareholder/Public Actions, Lobbying, Institutional Investors (2018) → Pressure banks to disclose and decrease portfolio emissions in line with 1.5-2C → Sector exclusion on new coal development (1. No new projects, 2. Restrict/phase out coal related companies, 3. Sector exclusion – no coal projects/companies) (2020)
- Align with Paris

- 2018-2019 → September – RISE - GCAS – PRI, Nov 26 (UNEP FI sustainable banking principles) → June 2019 G20 Finance Ministers + Bank Governors, Shareholder AGMs

Campaign Strategies on public financing in Japan

1. Increase international pressure on the Gov. of Japan
   - Achievement: Government made a new position to apply the OECD rule to all public financing projects
   - Actions: Isolate Japan at key international events
2. Support Government Allies (MoE, MoFA, etc.)
   - Achievement: Environment Minister expressed concern on overseas coal financing
   - Actions: Provide data and continue communication with these allies
3. Increase transaction costs of key iconic coal-fired power projects
4. Evoke risks on reputation, finance, and future business opportunities for Marubeni and others
   - Achievements: awareness of major shareholders on Marubeni's involvement in coal projects were increased (e.g. Cirebon, Morupule, Thabametsi, etc.)
   - Actions: continue to encourage investors to divest from Marubeni, in cooperation with European NGOs
   - Global actions and media campaigns at key occasions

Overview of Trends in Korean Financing of Fossil Fuels and Major Players
Presentor:
Soyoung Lee, Solutions for our Climate (SFOC)
http://priceofoil.org/2018/11/13/koreas-coal-finance-polluting-the-world/
Summary of Presentation:

- Korean non-profit established in 2016, focusing on climate and air policy
- Led by climate change related legal, economic and financial experts, with experience in US or international non-profits
- New Administration promised to reexamine the plans of 9 new coal power plants, seven are under construction without cancellation or change (only 2 changed into gas plants)
- Political Economy of Coal in South Korea
  - High level of air pollution – air pollution is a non-partisan issue
  - Public impression of coal has drastically deteriorated in last 5 years
  - Half of coal capacity (30 units, 18GW) located in South Chungcheong Province – strong local resistance against coal/proximity to Seoul
  - Coal power is an air pollution issue, not a climate change issue

- Current admin focused on phasing out nuclear power; coal power gets relatively little attention; talks about coal, temporary shutdown of old coal power plants, decommissioning of ten old coal power units (merely continuation of already existing plans), but very little movement
- Coal share was 42% in 2017

  SFOC Coal finance work
  1. First target was National Pension Fund/National Pension Service (NPS) → well-known and people's money, model cases of Norwegian Fund and CalPERS
  2. Almost nothing on coal finance on Korean portal sites (no articles, no research)
  3. Published simple study on NPS coal financing, more than 30 articles and op-eds referred to the study, including coverage on primetime news and major documentary programs
  4. Now, coal financing is being discussed more widely
  5. First report on state of Korean Coal Finance (Jan 2018) in English and Korean

Prior to setting up strategies

- Think about the ways public financial institutions think
- Need clear evidence (excel sheets, numbers, EVN/PLN financial risks, environmental regulations, etc.)
- Public officials spend more than 50% of their time preparing for National Assembly, Bureau of Audit and Inspection audits or internal audits; not much capacity in sourcing deals and understanding global energy trends. They try not to receive any criticism during their audits. SFOC plans to use the audit rights
- Right to request for audit materials, inquire, request attendance at the Assembly
- Assemblymen or women are interested in coal finance issues, but they like special stories of each project and simple mistakes/exact figures rather than climate change discussion
- Raised coal financing issue during 2017 National Assembly Audit (Oct)

- KDB president, KEXIM president, NPS, Ministry of Energy questioned
- Words not put into action, answers are not legally binding
- KEXIM agreed that their coal financing is excessive

- Sent lots of letters
- Filed first coal finance lawsuit in Korea
    - Not legally established lawsuit, but was able to delay a loan agreement for 2 months

- Small Gains – National Assembly issue raising significantly contributes to collapse of plans for new coal
- Coal finance study led to introduction of bills amending the National Pension Service Act, KDB Act, KEXIM Act, under which such financial institutions will be subject to stronger scrutiny when investing in coal projects. Bills are still pending in the relevant standing committees

General Discussion on Strategies and Action Points

- Change profit projects (i.e. excel sheets) → make government think they should reflect certain under-evaluated cash flow risks (PLN financial distress risks, Mundra PPA risks, other stories, etc.)
- Signal that audits may be nearby → disclosing / amplifying past mistakes (e.g. Cirebon 2 license issue, Long Phu 1 bidding procedure issue, etc.) Simple facts that can be conveyed easily
- Appealing to Moon Jae-In government in sensitive issues → Moon Gov't believes they are the symbol of anti-corruption and human rights; show gov't that certain investments can really taint the image
- Specific stories that happen on the ground in recipient countries and that can be explained toa policy-maker/journalist in less than 5 minutes will be helpful
- SFOC will update and publish the updated Coal Finance Report in October 2018, and there will be strong audits in the National Assembly at the same time
- Will push the Admin to consider stopping overseas coal projects by criticizing on their insufficient climate policies and weak precedents
- Specific stories that show the mistakes of bankers or human rights violations would be helpful to push to specific officials

- Mahershali, Bangladesh → KEPCO, looking for information about and possibilities to counter the project
- KEPCO definitely a target for scrutiny
- Inform SFOC of specific project name and details, can check on project and send data through email

- Interesting case study for campaigning against ADB, KEXIM → 200MW powerplant in Cebu, filed complaint against ADB process; use this example for campaigning;

- Engagement with National Assemblies → need data and evidence, what sort of information is presented? Information from cost analysis? Many times when trying to engage National Assembly → what kind of data should be shared to get their interest/attention?

Session Four: European Players in Financing of Coal and Fossil Fuels

Overview of Landscape and Campaign Initiatives, Discussion of Joint Strategies
Presenters:
Cristina Beberdick, Urgewald
Greig Aitken, Bank Track
Lucy Cadena, FOEI
https://www.banktrack.org/article/report_finds_major_banks_ramped_up_fossil_fuel_financing_to_115_billion_in_2017
http://www.counter-balance.org/eibshift/
Summary of Presentations

Landscape of campaigning in Europe

- Getting information, working at campaign initiatives in finance, but need to be contextualized with campaigning efforts on the ground
- In Asia also need to get going on oil and gas work, not just coal
- Usual target for campaigning in Europe is usually fossil fuel companies themselves (ex. The People vs Shell)
- Divestment movement also took off in Europe after success in US
- FOE France has been campaigning against French banks for many years
- Most groups in the North are very busy resisting dirty energy companies in their communities, but do want to encourage them to recognize their responsibility of living in the Global North and increase solidarity work
- When European banks pull out of "problem" projects (ex. Cirebon), someone else joins the consortium and fills the gap. How to prevent that? Rather than just celebrating, it would be good to use them as an example and put pressure on other banks

- FOE doesn't have links in China, for example, which makes campaigning when this happens difficult

- Worked with bank unions? Employee unions? To work on them from within?
- Not yet Possible to explore this tactic in Asia (working with employee, bank unions to get banks to pull out
- Shareholding usually moves quite fast, however just need to focus that they will not AGAIN invest in companies in this sector or in NEW companies in the future → POLICY

- In general, movement from project financing to corporate bonds – trying to offload a lot of risk. Corporate bonds more popular now in infrastructure in general
- Small slices of investment might be for specific things. Marubeni might have been asked to make sure that they use Chinese manufacturers, materials, etc.

- External commercial bonds (ECBs). Bonds also have risk of heavy losses
- Bonds are a debt instrument, instrument → for every dollar invested, get 32 cents back
- Need to study what kind of bonds are involved in the transactions
- Bonds are SUPPOSED to be safer investments than equity, supposed to deliver a certain yield → when they don't give that yield, that's when market begins to rethink → in general, bond markets are slow to react

- Primary bond market → newly listed, new bond; after it moves to secondary market → can be bought and sold (like stocks) → bond market is attractive because it's liquid, larger pool of investors (comparatively, project finance is a club game so you're looking for a big investor)
- Should be keeping an eye now on bonds
- Cities can actually invest in infrastructure, energy
- Renewable energy changes the rules of the game → doesn't have to be the usual conglomerates

• In Europe, moving away from direct project financing
- Type of investing is another layer: equity financing vs bond financing (form of lending but in the form of bond instruments) → bond instruments can pass ownership, can be traded, a bit more difficult to trace who the bond holder actually is (solutions are a little more complex)
• Type of financial structure is changing towards corporate – brings more players in terms of regulators (engage with Security and Exchanges Commission, Central Bank → if they start issuing warnings against coal-fired power, it reduces investor appetite)
    ➢ IEEFA released a report on Marubeni and how it is now at risk of stranded assets

• European plants and coal power → majority of big institutions in Europe have made reasonably strong advances in coal policies in terms of direct financing

- 14 international commercial banks have called an end to their direct financing of all new coal-fired power plants, worldwide
- Missing: Credit Suisse (UVS), no UK banks
- HSBC – moved, with exceptions in Vietnam, Indonesia, Bangladesh

• Rest of fossil fuel sectors way behind coal
• 2 main points of focus:
    - Standard Chartered → policy review
    - HSBC → close loopholes
        ▪ ChristianAid, RAN, BankTrack targeting HSBC

• Direct lending is a much narrower range of finance; underwriting more prevalent
• Big banks play a big role in underwriting because they have a subsidy rate; 1 USD lending =/= 1 USD underwriting. Clarify the difference in campaign messaging?
• BankTrack, Urgewald to update the list with the impact of policy changes post-COP

General Discussion on Strategies and Action Points

• Priority targets
- HSBC – 3 country loophole (Vietnam, Indonesia, Bangladesh)
- Barclays – bad state policy-wise, but hasn't actually done much lending to coal projects in Asia, Africa
- Deutsche Bank – don't do direct project finance but will give loans to companies that do
• Want better policies, for other banks to follow/pressure peers
• Possible to calculate stranded asset risk exposure of these companies? Could show whether they are able to pay back these loans to Deutsche Bank
    - Need to refine tactics re: which players we want to hit in the financing process
• Need to develop the right call: direct financing (Stop financing etc.) vs financing companies that finance coal (Divest)
• When putting a spotlight on JP companies, also put a spotlight on European companies that have policies that limit financing of coal → benchmarking, fear of falling behind corporate peers
- How to use information on own campaigning on Asian banks, but also need to campaign on European financial players → still need to push European banks further
• ABP → Dutch civil pension fund (investment arm is APG) → have less volumes invested in coal companies but no policy yet

- Marubeni → can be found in basically any investor's portfolio → isn't considered a coal company because they're so hugely diversified, trying to convince companies that they are
- Sending letters to investors, KIKO will be putting up a campaign website, highlighting case of Marubeni a bit more; one specific case that is representative of 120 companies

- How do you get database? a lot of data cannot be accessed online, accessible only through pay portals
- OUTCOME WE WANT: investors to pull out of projects and stop coal financing

- Why they should divest (impact on communities, etc.), including reasons for pulling out their investments that THEY care about (stranded assets, risk assessments) → what kind of arguments will compel them to review their investments and exposure?
- Should task people who can to start making those arguments to central banks → where European, Japanese, Chinese, Korean counterparts have experience in
- How do people feel about expanding into Asian-European initiatives about companies that might be vulnerable to stranded assets
- Specific strategies per company (Asia's Dirty Dozen)
- Collective campaign on KEPCO?
- Traditional bankers pulling out, Chinese finance stepping in (reality in ADB, AIIB → moment that scenarios on the ground are risky, banks step out but sooner or later Chinese banks pick it up) → new players are coming in
- What to do? Project by project or go to institutions (going in to government energy plans, financiers)? Or both??
- In project by project → really just making it expensive for banks to invest. They are pulling out of direct financing, but they're just looking for other ways to make money. Will still get involved through other ways
- Should be concerned about G20 + fossil fuel subsidies

Overview on Fossil Fuel Finance Processes, Concepts, Terms, Categories of Major Players

1. Global Coal Exit List, the Top 120 Coal Plant Developers and their Financiers
2. Banks and Coal /Fossil Fuels – Landscape, Developments https://www.banktrack.org/article/report_finds_major_banks_ramped_up_fossil_fuel_financing_to_115_billion_in_2017
3. Public Financial Institutions, Public Subsidies for Coal and Fossil Fuels
4. G7 and G20 https://www.odi.org/publications/11131-g7-fossil-fuel-subsidy-scorecard
5. ADB, AIIB and WB https://th.boell.org/en/2018/11/20/exposing-clean-energy-myths-adb-and-aiib
6. Mapping of Campaigns on Coal and Fossil Fuel Finance; (including Results of Asian Energy Strategy Meeting)
7. Chinese financing of coal and fossil https://www.bloomberg.com/news/articles/2018-10-04/china-s-funding-for-coal-draws-scrutiny-as-climate-concern-grows
8. Japanese and Korean Financing of Coal and Fossil Fuels https://350.org/press-release/energyfinanceinjapan2018/
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10. Overview of Trends in Korean Financing of Fossil Fuels and Major Players http://priceofoil.org/2018/11/13/koreas-coal-finance-polluting-the-world/
11. European Players in Financing of Coal and Fossil Fuels - Overview of Landscape http://www.counter-balance.org/eibshift/

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