

# Chapter 1

## Coal Divestment

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# Chapter 1

## Coal Divestment

Coal-fired power generation provides reliable and affordable electricity and shares 62% in the power mix of India, Indonesia, Malaysia, Myanmar, the Philippines, Thailand, and Viet Nam. With many new CFPPs under construction and planning, coal is likely to remain the primary fuel for power generation in those countries. However, since climate change is a pressing issue to address, it is increasingly common that building CFPPs face strong opposition. While traditionally such opposition tended to come from local communities and environmentalists, it is increasingly common that financial institutions restrict themselves from financing such power plants to suppress coal consumption and address climate change. This chapter illustrates where such financial restriction, or coal divestment, came from and looks at how international organisations, governments, and financial institutions implement it.

### **1. Initiatives by International Organisations**

#### **1.1. The United Nations**

The recent coal divestment stems from concerns over climate change. While a wide range of other countermeasures such as energy efficiency, emission trading, renewables, hydrogen, CCUS (carbon capture, utilisation, and storage) are implemented and studied, how coal use should be cut down has been one of the main focuses. Perhaps one notable move, albeit conceptual, was the Sustainable Development Goals (SDGs) adopted by the United Nations (UN) in September 2015.<sup>1</sup> These goals cover climate change and a wide range of development areas such as human rights, technology, and peace. Nevertheless, at least two of them – renewable energy (SDG 7) and climate action (SDG 13) – are directly related to climate change issues. Although the SDG document does not mention coal at all, it provided a conceptual basis for coal divestment.

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<sup>1</sup> United Nations, [https://www.un.org/ga/search/view\\_doc.asp?symbol=A/RES/70/1&Lang=E](https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E).

**Figure 1.1: 17 SDG Areas by the United Nations**



SDG = Sustainable Development Goal.

Source: United Nations, <https://sdgs.un.org/goals>.

What followed the SDGs was the Paris Agreement (UN, 2015) in December 2015. Two key messages were (i) the need to hold ‘the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels’ (Article 2[1a]); and (ii) ‘achieve a balance between anthropogenic emissions by sources and removals by sinks of GHGs in the second half of this century’ (Article 4[1]). Again, coal is not mentioned in the Agreement; the latter message became a basis for the carbon-neutral, or net-zero, target by 2050.

## **1.2. Organisation for Economic Co-operation and Development**

While the UN played a major role in coal divestment by providing the conceptual basis, the coal divestment idea emerged from other spheres. The Sector Understanding on Export Credits for Coal-Fired Electricity Generation Projects formulated by the OECD in November 2015 sets the guideline for financing CFPPs by financial institutions in OECD countries. More concretely, the Understanding divides nine CFPPs according to plant size and thermal efficiency, and restricts financing of less-efficient supercritical and subcritical plants. Some exemption is applied to International Development Association (IDA)-eligible countries,<sup>2</sup> which include Cambodia, the Lao PDR, and Myanmar. Ultra-supercritical (USC) is eligible, but the maximum repayment term is 12 years. However, this Understanding does not apply to non-OECD lenders, so financing, for instance, by ASEAN countries, China, and India is not restricted.

<sup>2</sup> Countries with a gross national income per capita below a certain threshold (US\$1,185 in fiscal year 2021).

**Table 1.1: Repayment Terms for Coal-Fired Power Plants, by OECD Lender**

<b>Plant Unit Size</b>	<b>Unit &gt;500MW</b>	<b>Unit ≥300 to 500 MW</b>	<b>Unit &lt; 300 MW</b>
Ultra-supercritical (i.e. with a steam pressure >240 bar and ≥593°C steam temperature), OR Emissions <750 g CO <sub>2</sub> /kWh	12 years	12 years	12 years
Supercritical (i.e. with a steam pressure >221 bar and >550°C steam temperature), OR Emissions between 750 and 850 g CO <sub>2</sub> /kWh	Ineligible	10 years, and only in IDA-eligible countries	10 years, and only in IDA-eligible countries
Subcritical (i.e. with a steam pressure <221 bar), OR Emissions >850 g CO <sub>2</sub> /kWh	Ineligible	Ineligible	10 years, and only in IDA-eligible countries

IDA = International Development Association.

Note: IDA-eligible countries are countries with gross national income per capita below a certain threshold (\$1,185 in the fiscal year 2021).

Source: OECD (2015).

## **2. Initiatives by Governments**

The Paris Agreement, ratified by 189 countries or regions, has been in force since 2016. These countries submitted their Intended National Determined Contribution, which sets each party's target to address climate change. Since one of the Agreement's principles was the bottom-up approach, the parties freely set different targets. The OECD countries tended to set reduction targets of total GHG emissions; other countries adopted different methods. As far as the seven EAS countries of this study are concerned, India and Malaysia pledged to reduce emission intensity. Indonesia, Malaysia, the Philippines, and Viet Nam set unconditional and conditional targets, depending on international support availability. Thailand envisaged a reduction from the assumed future emission amount, and Myanmar did not set a numerical target.

**Table 1.2: INDCs by the Seven EAS Countries**

	<b>Base Year</b>	<b>Target Year</b>	<b>Target</b>
India	2005	2030	30%–35% reduction of emissions intensity of its GDP
Indonesia	2010	2020 & 2030	Unconditional: -26% by 2020 and -29% by 2030 Conditional: -41% by 2030 with international support
Malaysia	2005	2030	Unconditional: -45% of emission intensity & -35% of total emission Conditional: -45% of total emission with international support
Myanmar	-	2030	Policies and measures in multiple sectors, to be implemented
Philippines	-	2030	Conditional: -70% of total emission with international support
Thailand	2005	2030	-20% from business-as-usual level (possible to increase by 25% in 2030)
Viet Nam	2010	2030	Unconditional: -8% of total emission Conditional: -25% with international support

INDC = Intended Nationally Determined Contribution.

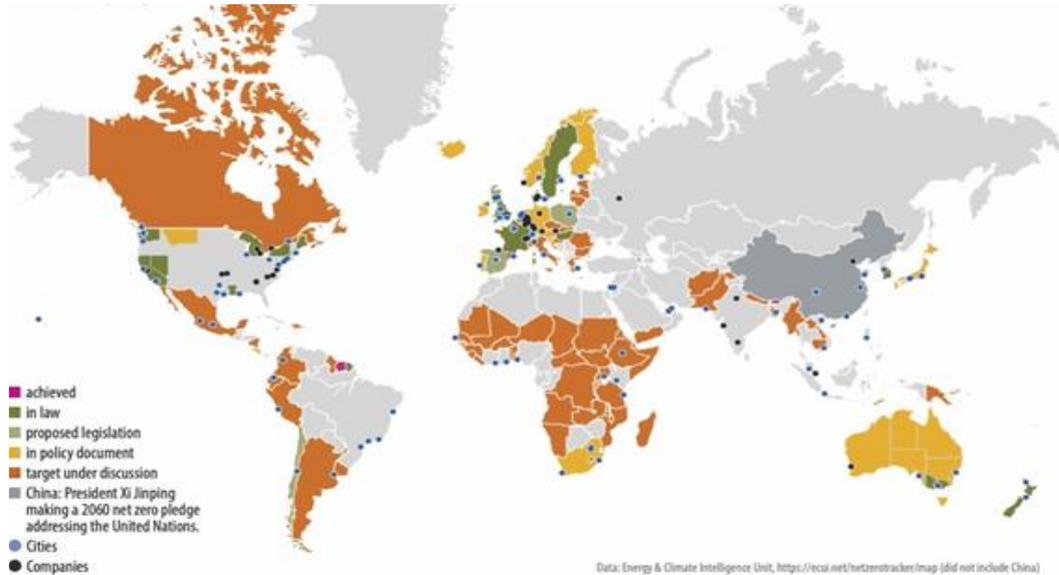
Source: UNFCCC INDC Portal,

<https://www4.unfccc.int/sites/submissions/INDC/Submission%20Pages/submissions.aspx>.

Although the above seven countries largely retain their targets, many countries rushed to set a carbon-neutral, or net-zero, target especially since 2019, referred to as the ‘net zero race’. Sweden initiated this trend in 2017, followed by the United Kingdom (UK) and the European Union in 2019, and others including China, Japan, and the Republic of Korea (hereafter Korea) in 2020. As of December 2020, more than 123 countries and one region have committed to becoming carbon neutral (Agence France-Press, 2020). The seven countries in this study have not pledged a net-zero target, although Cambodia, the Lao PDR, and Myanmar are reportedly considering such a target.<sup>3</sup>

<sup>3</sup> Energy & Climate Intelligence Unit, <https://eciu.net/netzerotracker>.

**Figure 1.2: Net-Zero Pledging Countries**



Source: Energy & Climate Intelligence Unit. <https://eciu.net/netzerotracker/map>.

Coal-fired power generation alone shares 30% of the total CO<sub>2</sub> emission worldwide in 2018 (IEA, 2019a), the largest emission sector. Thus, it is understandable that environmentalists and increasingly governments and financial institutions focus on reducing coal use for power generation. For instance, France, the UK, and Germany have decided to abandon CFPPs in 2022, 2025, and 2038. Some countries, including Japan and Korea, aim at reducing coal-fired power generation by closing inefficient plants or introducing tighter environmental restrictions. The United States (US) is a different story, but a similar consequence. Even under the Trump administration that supported fossil fuel use, including coal-fired power, coal use significantly declined because coal became less competitive than natural gas and renewables. Since the 'greener' Biden administration is now in power, the US is unlikely to go back to the coal-friendly policy.

Governments, especially in Europe and some states in the US, now divest coal-related projects through state-owned financial institutions. For instance, the California Public Employees' Retirement System (CalPERS), in 2015, decided to sell stocks of thermal coal companies by 2017 (CalPERS, 2017). In 2016, the Government Pension Fund of Norway excluded mining companies and power producers whose income from thermal coal is at least 30% or had at least 30% of their operations on thermal coal from their investment portfolio (Norges Bank, 2016). In addition to OECD's Understanding on Export Credits for Coal-Fired Electricity Generation Projects in 2015, governments, especially in Europe, started to restrict financing on coal and other fossil fuel businesses. In 2019, the European Investment Bank announced it would stop financing fossil-fuel energy projects, including coal mining and CFPPs, from the end of 2021 (European Investment Bank, 2019). In 2019, the European Bank for Reconstruction and Development decided to end financing thermal coal mining and coal-fired power generation (IEA, 2020a). In September 2020, the Swedish government decided that to stop state-backed loans and export credit guarantees for

exports to extract and explore fossil fuels after 2022 (EKN, 2020). In October 2020, the French government announced that it would stop providing state export guarantees to projects involving shale oil and oil sand, followed by all oil types from 2025 and gas from 2035 (*Reuters*, 2020a). In December 2020, the UK government announced an end to its direct support, including export finance, for the fossil-fuel energy sector overseas (Prime Minister's Office, 2020).

In July 2020, the Japanese government also tightened conditions for CFPP export. The government supports the export of CFPPs only if the importing country has no alternatives. The country requests Japan to export highly efficient plants, and the latest USC or more efficient plants will be exported.<sup>4</sup> With this decision, the government intends to promote the export of low-carbon infrastructure, providing these are USC and renewables, hydrogen, and any options that will reduce CO<sub>2</sub> emission in importing countries.<sup>5</sup>

Policies in the seven countries in this study have primarily supported coal and coal-fired power generation. India, Indonesia, Malaysia, and the Philippines have numerical targets to increase domestic coal production. Most of the countries intend to retain the significant role of coal-fired power generation in their power mix. However, there are a few cases where some of these countries plan to decrease coal use in recent years. Thailand, for instance, envisages that the capacity of coal-fired power generation will decrease from 4,637 MW in 2018 to 3,910 MW in 2037.<sup>6</sup> Viet Nam also plans to limit coal-fired power generation by not allowing new projects (*Argus*, 2020). Indonesia now intends to replace old CFPPs with renewables (*Reuters*, 2020b). Several CFPPs, especially in Viet Nam, face severe opposition from environmentalists, influencing future coal policy in the seven countries.

### 3. Initiatives by Financial Institutions

While some governments disincentivise or do not allow CFPPs to be built, an increasing number of financial institutions restrict or withdraw from financing CFPPs to address climate change. Coal divestment was initiated by international organisations, followed by the public sector, and then spread around the private sector. Today various bodies implement divestment, such as international financial institutions like the World Bank, regional financial institutions like the European Investment Bank, commercial banks like the Deutsche Bank, pension funds, investment management corporations, insurance companies, and government financial agencies.

The World Bank initiated coal divestment when it announced it will 'only in rare circumstances' provide financial support for new greenfield coal power generation projects, such as "meeting basic energy needs in countries with no feasible alternatives" (World Bank, 2013). The World Bank later in 2017 decided not to finance upstream oil and gas after 2019 (World Bank, 2017). International financial institutions based in Asia started

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<sup>4</sup> インフラシステム輸出戦略 (Infrastructure System Export Strategy), 9 July 2020, <https://www.kantei.go.jp/jp/singi/keikyou/dai47/siryou3.pdf>.

<sup>5</sup> Ibid.

<sup>6</sup> Government of Vietnam, Power Development Plan 2018.

to move away from coal financing. ADB, for instance, has financed only high-efficiency coal-fired plants since 2009. Although its Independent Evaluation unit recommended divesting CFPPs in August 2020 (ADB, 2020), ADB has not announced a formal exit from coal financing. The Asian Infrastructure Investment Bank announced it would not finance any CFPP in September 2020 (AIIB, 2020).

Major financiers for CFPPs in the seven countries are development banks and export credit agencies from China and Japan. As commercial actors announce new restrictions, coal power finance relies on fewer sources, especially development banks and export credit agencies from China and Japan (AIIB, 2020). However, the solely state-owned Japan Bank for International Cooperation acknowledged the difficulty in financing coal and revealed it has no coal financing projects as of March 2021.<sup>7</sup>

While public financial institutions tightened, especially in Europe, coal divestment became common in commercial banks following the World Bank since the mid-2010s. Since 2013, more than 100 global financial institutions have made increasingly tight divestment and/or exclusion policies around thermal coal (Buckley, 2019). Commercial banks in OECD countries had already been subject to the above-mentioned OECD guideline in 2015. Japan's three biggest commercial banks announced to begin withdrawing from financing new CFPPs in 2020.

#### **4. Securing Finances for CFPPs in the Seven EAS Countries**

Coal divestment, especially amongst OECD financiers, intends to address climate change. One obvious problem is that non-OECD financiers are not subject to OECD's sector understanding. Non-OECD lenders are, therefore, not restricted to finance less-efficient plants. If less-efficient plants are built, CO<sub>2</sub> emissions will increase against the spirit of coal divestment. According to the IEA, the largest debt providers in coal financing are development banks and export credit agencies in China and Japan (IEA, 2020a). With Japan's policy change, coal financing will come more from China and other non-OECD countries. Amongst the seven countries in this study, difficulty securing coal financing is already a problem for Viet Nam. The Viet Nam government considers reinforcing the financial support by launching a new grant and diversifying financing sources presumably away from OECD lenders. Wherever the financing may come from, the financier should set its standard equivalent to OECD's sector understanding in terms of efficiency to prevent less-efficient plants from being built. Simultaneously, all financiers should promote low-carbon technologies in coal power, such as integrated coal gasification combined cycle (IGCC) and CCUS attached to CFPPs. While OECD countries have difficulty financing CFPPs, international financial institutions like ADB now have a more significant role in financing efficient and clean coal power projects.

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<sup>7</sup> NHK (2021), 3 March, [https://www3.nhk.or.jp/nhkworld/en/news/20210303\\_16/](https://www3.nhk.or.jp/nhkworld/en/news/20210303_16/) (accessed March 2021).