



18 July 2018

The coal power financing problem at HSBC and Standard Chartered

Summary and key statistics

In April, the UK's biggest commercial bank HSBC published a new energy policy. Media coverage largely praised the policy for being progressive, e.g. the Telegraph heralded the bank for “turn(ing) its back on financing high carbon energy projects after ruling out funds for new coal-fired power plants.”¹ However, HSBC's policy is dangerously inadequate because it includes glaring loopholes. The policy still allows HSBC to directly finance coal plants in Vietnam, Indonesia and Bangladesh until the end of 2023.

This falls far short of the standard set by the Royal Bank of Scotland and 15 other international commercial banks, which have committed to stop financing coal plants anywhere in the world.² Vietnam, Indonesia and Bangladesh are among the six countries with the largest plans for yet unbuilt coal-fired power plants.³ Their combined total of 102,000 megawatts (MW) remain open for HSBC to finance.⁴

Standard Chartered, another major UK bank, is currently reviewing its approach to global coal plant financing, as announced at its AGM last month, which is expected to be released at the end of the summer. However, there are worrying signs that Standard Chartered is preparing to follow the approach of HSBC rather than that of RBS. Standard Chartered's Chairman Jose Viñals said at the AGM that he believed that there are a “number of markets in which there is no viable alternative to coal.” Given his bank's geographic focus on Asia, Africa and Middle East, this raises the risk that Standard Chartered will continue coal power plant financing in specific developing world countries including, Vietnam, Indonesia and Bangladesh, as well as African countries.

HSBC and Standard Chartered are known to be currently involved – as financial arrangers and/or as potential financiers – in six proposed coal plants in Vietnam and Indonesia according to the latest available data.

When asked for comment on their involvement with these specific Vietnamese and Indonesian coal plants, HSBC stated it was unable to comment on any projects or customers, either to confirm or deny involvement, because of its duty of confidentiality, and that remained the case even when there may be information in the public domain. Standard Chartered stated the same, and claimed that it would not participate in projects that did not align with its position statements.⁵ The briefing covers their responses in more detail below.

¹ The Telegraph, April 2018, 'HSBC turns its back on coal,': <https://www.telegraph.co.uk/business/2018/04/20/hsbc-turns-back-coal/>

² https://www.banktrack.org/page/list_of_banks_that_ended_direct_finance_for_new_coal_minesplants

³ Boom And Bust 2018, p12, Table 3 for the list of national coal plant plans. In particular, the column for “pre-construction“ https://endcoal.org/wp-content/uploads/2018/03/BoomAndBust_2018_r4.pdf

⁴ For latest figures updated in July 2018, see CoalSwarm, Global Coal Plant Tracker, spreadsheet “coal plants by country (MW) July 2018, adding both pre-construction and construction phase totals: <https://endcoal.org/global-coal-plant-tracker/>

⁵ Standard Chartered's position statement on power generation: <https://www.sc.com/en/sustainability/position-statements/power-generation/>

Key statistics

See table 1 below for the underlying figures.

1. The six coal plants in Vietnam and Indonesia that the two banks are involved with:

- The expected annual CO₂ emissions of just the six coal plants in Indonesia and Vietnam that HSBC and Standard Chartered are in line to help fund *are more than the annual total national CO₂ emissions of over two thirds of the countries in the world.*⁶
That is, the combined annual emissions from those plants stands to be 44.93 million tonnes, and the individual national annual CO₂ emissions (i.e. not just from coal but from everything) of 130 out of 193 countries (67%) are 44 million tonnes or lower.
- Over the lifetime of these six plants their total CO₂ emissions will be 1,797 megatonnes (Mt). This is considerably more than the combined annual emissions of five of the six biggest CO₂ emitters (US, India, Russia, Japan and Germany).⁷

2. Impact of all planned coal plants in Vietnam, Indonesia and Bangladesh

- If the planned plants in Vietnam, Indonesia and Bangladesh do receive finance and are constructed, they would use up 14% of the remaining emissions over their lifecycle that coal plants can emit globally in order to meet the Paris Agreement targets. (They would emit 16.74 gigatonnes (16,741 Mt) from the carbon budget of 117 gigatonnes for coal-fired power plants).⁸
- The wasted capital involved in these plants, which could instead be contributing to the clean energy transition, amounts to **\$15.37 billion**.
- The wasted capital in the three countries combined would involve up to a potential **\$213 billion** squandered on coal power instead of renewable alternatives.

3. Air pollution deaths

- In 2017, researchers from Harvard University published research showing that the number of premature deaths from air pollution due to coal in South East Asia is expected to rise by approximately 50,000 people per year by 2030, killing a total of 70,000 each year, if current coal plant expansion plans in the region are implemented.⁹
- The research points out that the largest mortality tolls from coal plant pollution, are found in Indonesia and Vietnam.

⁶ See the table of annual CO₂ emissions in 2016 for each country in the world <http://www.globalcarbonatlas.org/en/CO2-emissions> (from data by Boden et al. (2017), UNFCCC (2017), BP (2017)). We use the calculation of 80% capacity for new power stations. Note this table lists 223 “countries”. The total of UN member states is 193. To get the 67% figure we have discounted the 30 non-UN registered countries. Only one of the discounted 30 “countries” is above the 44.93 Mt total: Taiwan. 29 of the discounted 30 countries are below 44.93 Mt, and if included would make the percentage of countries with lower emissions than the six power stations larger.

⁷ Ibid.

⁸ Based on a the 40 year average lifetime of coal plants, using figures in the CoalSwarm Global Coal Plant Tracker based on annual emissions for plants not yet operating in Indonesia, Vietnam and Bangladesh. See https://docs.google.com/spreadsheets/d/1GK80KD3k-taM2_CFF_aWTTKSQsw1ozqFbOeKAbF6HI4/edit#gid=0

⁹ Environmental Science & Technology, January 2017: 'Burden of Disease from Rising Coal-Fired Power Plant Emissions in Southeast Asia', <https://pubs.acs.org/doi/pdf/10.1021/acs.est.6b03731>

This briefing:

- Details the planned coal power stations in the relevant developing countries which both HSBC and Standard Chartered are currently known to be involved in.
- Considers the climate and public health dangers, which might be catalysed if HSBC chooses to stick the course in Bangladesh, Indonesia and Vietnam up to 2023 and if Standard Chartered opts to adopt a similar policy.
- Examines the potential wasted capital involved, and touches on the strong potential for renewables in the countries HSBC will, and Standard Chartered might, still finance coal power in.

Coal plants the banks are planning to finance

Currently available information about coal plant projects in Indonesia and Vietnam in which HSBC and Standard Chartered are known to be involved – as financial arrangers and/or as potential financiers – is set out in the table below.

There are no current coal plant projects in Bangladesh in which HSBC or Standard Chartered are known to be involved (although, embarrassingly, it was revealed in 2016 that Standard Chartered has provided insurance services for construction work on the Rampal coal plant, a project which threatens the Sundarbans UNESCO World Heritage site in Bangladesh).¹⁰

The information is based on Global Coal Plant Tracker data (as of January 2018). The projects are still in either the pre-construction or construction phase.¹¹

Table 1

Individual plant	Country	Bank	Size of coal plant in Megawatts (MW)	Annual CO2 emissions (million tonnes)	Capital Cost (Billion US\$)
Sumsel 9 ¹²	Indonesia	HSBC	1,200	7.34	2.50
Sumsel 10 ¹³	Indonesia	HSBC	600	4.08	1.25
Long Phu 1 ¹⁴	Vietnam	HSBC	1,200	7.06	2.50
Vinh Tan 3 ¹⁵	Vietnam	HSBC, Standard Chartered	1,980	11.65	4.12

¹⁰ BankTrack, December 2016: ‘Rampal financing still in the balance as double standards mount,’:

https://www.banktrack.org/blog/rampal_financing_still_in_the_balance_as_double_standards_mount

¹¹ CoalSwarm – Global Coal Plant Tracker Methodology: <https://endcoal.org/global-coal-plant-tracker/methodology/>

¹² SourceWatch, ‘Mulut Tambang Power Station,’:

https://www.sourcewatch.org/index.php/Mulut_Tambang_power_station

¹³ SourceWatch, ‘Sumsel-10 Power Station’: https://www.sourcewatch.org/index.php/Sumsel-10_power_station

¹⁴ SourceWatch, ‘Long Phu Power Centre: https://www.sourcewatch.org/index.php/Long_Phu_Power_Centre and Market Forces – Long Phu 1: <https://www.marketforces.org.au/research/vietnam/long-phu-1/>

¹⁵ SourceWatch, ‘Vinh Tan Power Station,’: https://www.sourcewatch.org/index.php/Vinh_Tan_power_station and Market Forces, ‘Vinh Tan 3’: <https://www.marketforces.org.au/research/vietnam/vinh-tan-3/>

Nam Dinh 1 ¹⁶	Vietnam	Standard Chartered	1,200	7.51	2.50
VungAng 2 ¹⁷	Vietnam	Standard Chartered	1,200	7.30	2.50
Total				44.93	15.37
Total national plants	Country		Size of coal plant in Megawatts (MW)	Life time emissions (million tonnes)	Capital Cost (Billion US\$)
Plants in pre-construction and construction phase	Vietnam		45,325	7,268	94.28
Plants in pre-construction and construction phase	Indonesia		33,911	5,818	70.53
Plants in pre-construction and construction phase	Bangladesh		23,178	3,655	48.21
Total			102,414	16,741	213.02
Capital cost = US\$2080 / kW; based on "Projected Costs of Generating Electricity," International Energy Agency, Nuclear Energy Agency, 2015 Edition, Table 3.1, page 37. Figures in 2013 dollars based and 2020 commissioning date; global mean based on survey of 14 projects in Europe, East Asia, Africa, the United States, and China. Includes pre-construction (owner's), construction (engineering, procurement and construction) and contingency costs, but not interest during construction. ¹⁸					
Source of MW and CO2 analysis: CoalSwarm, Global Coal Plant Tracker, July 2018 ¹⁹					
CO2 analysis assumes 80% capacity factor for new plants; 52.5% capacity factor for lifetime average of plants ²⁰					

When asked to comment about their involvement in the financing of these plants, HSBC responded to Global Witness by stating it could not comment on any projects or customers, either to confirm or deny involvement, because of its duty of confidentiality, and that this remains the case even when there may be information in

¹⁶ SourceWatch, 'Nam Dinh Power Station,': https://www.sourcewatch.org/index.php/Nam_Dinh_power_station and Market Forces, Nam Dinh 1: <https://www.marketforces.org.au/research/vietnam/nam-dinh-1/>

¹⁷ SourceWatch, 'Vung Ang Power Station,': https://www.sourcewatch.org/index.php/Vung_Ang_power_station and Market Forces, 'Vung Ang 2': <https://www.marketforces.org.au/research/vietnam/vung-ang-2/>

¹⁸ International Energy Agency, 'Projected Costs of Generating Electricity', 2015 Edition: <https://www.oecd-neo.org/ndd/pubs/2015/7057-proj-costs-electricity-2015.pdf>

¹⁹ CoalSwarm, Global Coal Plant Tracker: <https://endcoal.org/global-coal-plant-tracker/>

²⁰ ibid

the public domain.

HSBC's new energy policy, as set out on its website, states that it will not fund new coal plants in any of the three countries if those plants exceed a carbon emissions intensity ratio to electricity generated, an independent analysis suggests there is no alternative to coal power, and financial close is not achieved after December 2023.

Standard Chartered's response to a request for comment, seen by Global Witness, is that it was unable to comment on the specific projects named due to client confidentiality, even if this information was in the public domain. It added that it would not participate in projects that are not aligned with the sectoral requirements in its current position statements, which might rule out funding for coal-power if they exceeded a carbon emissions intensity ratio to electricity generated, subject to other considerations.

These responses do not appear to rule out the two banks from providing financial services to the six identified coal plants, on the basis of their current policies. This includes the stipulation on the carbon emissions intensity ratio of plants, as this calculation depends on specific data for a range of variables, which is not yet publically available.

Climate Change: inconsistency with the Paris Agreement

As outlined in the key statistics section above, the expected annual CO₂ emissions of just the six coal plants in Indonesia and Vietnam that HSBC and Standard Chartered are in line to help bankroll *are more than the annual total national CO₂ emissions of over two thirds of the countries in the world.*²¹

That is, the combined annual emissions from those plants stands to be 44.93 million tonnes, and the individual national annual CO₂ emissions (i.e. not just from coal, but from everything) *of 130 out of 193 countries (67%) are 44 million tonnes or lower.*

Over the lifetime of these six plants their total CO₂ emissions will be 1,797 Mt. This is considerably more than the combined annual emissions of five of the six biggest CO₂ emitters (US, India, Russia, Japan and Germany).²²

HSBC's coal policy ignores a groundswell of scientific and international agency evidence and opinion that the expansion of thermal coal infrastructure anywhere in the world is incompatible with achieving the goals of the Paris Agreement: namely, limiting the global temperature rise to well below two degrees. This groundswell includes:

- World Bank president Jim Yong Kim warning, when addressing the implications of coal power development specifically in Southeast Asia in 2016 "If the entire region implements the coal-based plans right now, I think we are finished ... That would spell disaster for us and our planet."²³

²¹ See the table of annual CO₂ emissions in 2016 for each country in the world <http://www.globalcarbonatlas.org/en/CO2-emissions> (from data by Boden et al. (2017), UNFCCC (2017), BP (2017)). We use the calculation of 80% capacity for new power stations. Note this table lists 223 "countries". The total of UN member states is 193. To get the 67% figure we have discounted the 30 non-UN registered countries. Only one of the discounted 30 "countries" are above the 44.93 Mt total: Taiwan. 29 of the discounted 30 countries are below 44Mt, and if included would make the percentage of countries with lower emissions than the six power stations larger.

²² Ibid.

²³ The Guardian, May 2016, 'Plans for coal-fired power in Asia are disaster for planet, warns World Bank,': <https://www.theguardian.com/environment/2016/may/05/climate-change-coal-power-asia-world-bank-disaster>

- In 2016, research by the University of Oxford demonstrated how the global stock of power generation infrastructure with future emissions consistent with the well below 2°C goal would be reached by 2017. The upshot is that no new coal power plants without carbon capture and storage technology fitted can be built anywhere in the world, and that existing infrastructure will have to be retired early to ensure even a 50% probability of keeping the global temperature rise to below 2 degrees.²⁴
- The United Nations Environment Programme in its “Emissions Gap Report 2017” recommended key steps for achieving the Paris Agreement. These included “Avoiding building new coal-fired power plants and phasing out existing ones.”²⁵
- In 2016 Climate Analytics calculated that the total CO2 emissions allowed (carbon budget) from global coal plants between 2017 and 2050 for achieving 1.5 degrees was 117 gigatonnes (Gt) (117,000 Megatonnes (Mt)). CoalSwarm has shown that the lifetime CO2 emissions from coal plants currently operating along with those under construction and in pre-construction development far exceed this available carbon budget.²⁶

Yet HSBC has chosen to pay only selective heed to these warnings. Its new energy policy’s very concise reasoning for the three-country loophole boils down to “local humanitarian needs”. Essentially, HSBC has opted to stick with coal power in three potentially large developing country coal power markets by couching its justification in language, which echoes the sentiments of the coal lobby. The standard coal industry claim runs that burning coal, despite being so detrimental to public health and the climate, is still necessary to address energy poverty and to spur development.

Expert anti-poverty organisations such as the Overseas Development Institute and CAFOD have argued that the opposite is true: not only will more coal plants not give access to energy for all still without it, such plants will impose unnecessary suffering on people living in poverty, chiefly via climate change impacts.²⁷ Again, as Jim Yong Kim put in 2013, “if we don’t confront climate change, we won’t end poverty.”²⁸ And World Bank officials have subsequently continued to be outspoken in rejecting industry claims that coal can cure poverty, arguing for example that “when it came to lifting countries out of poverty, coal was part of the problem – and not part of a broader solution.”²⁹

Another line of argument is that coal is necessary for industrialisation, which is an important factor for economic development. This does not hold up either. At a time of increasingly rapid technological development in renewables, and a corresponding dramatic and ongoing decrease in the cost of energy generation from them, governments that plan long-term industrial development around fossil fuel intensive inputs will be at the mercy of uncompetitive costs, and in turn will seriously risk creating industries, which are uncompetitive in the international market. A recent study by researchers from Cambridge and the Open University found that clean energy technologies were developing at such a rapid pace that an estimated \$1

²⁴University of Oxford, January 2016, ‘The ‘2C capital stock’ for electricity generation: Cumulative committed carbon emissions and climate change,’: <https://www.ineteconomics.org/uploads/papers/2C-Capital-Stock-Working-Paper.pdf>

²⁵ United Nations Environment Programme, October 2017, ‘Emissions Gap Report 2017,’ <https://www.unenvironment.org/news-and-stories/press-release/emissions-gap-report-2017-governments-non-state-actors-must-do-more>

²⁶ Climate Analytics, November 2016, ‘Implications of the Paris Agreement for coal use in the power sector,’: <http://climateanalytics.org/publications/2016/implications-of-the-paris-agreement-for-coal-use-in-the-power-sector.html> and Boom and Bust 2018, p6 https://endcoal.org/wp-content/uploads/2018/03/BoomAndBust_2018_r4.pdf

²⁷ Overseas Development Institute, CAFOD et al October 2017, ‘Beyond Coal,’: <https://www.odi.org/publications/10589-beyond-coal-scaling-clean-energy-fight-global-poverty>

²⁸ The World Bank, July 2013, ‘Ending Poverty Includes Tackling Climate Change,’: <http://www.worldbank.org/en/news/opinion/2013/07/10/op-ed-ending-poverty-includes-tackling-climate-change>

²⁹ The Guardian, July 2015, ‘World Bank rejects energy industry argument that coal can cure poverty,’ <https://www.theguardian.com/environment/2015/jul/29/world-bank-coal-cure-poverty-rejects>

trillion to \$4 trillion could be wiped off the value of fossil fuel assets globally.³⁰

HSBC is reported as saying of its Asian coal power loophole: “It is not a commercial decision ... we are trying to balance two different sustainable development goals of getting power to the people and limiting the environmental impact.”³¹ Given the renewables potential in the three countries, there should be no ‘balancing act’ required to accommodate continued, egregious coal financing. Instead, the evidence points to HSBC playing fast and loose with sustainability definitions in order to justify its continuing financing for coal power.

Opening the door for much greater emissions and wasted capital

Table 1 shows how HSBC’s policy of allowing finance for coal power in Vietnam, Indonesia and Bangladesh opens the door for even bigger concerns. Despite the increasingly acute climate urgency, and two and a half years on from the signing of the Paris Agreement (which both HSBC and Standard Chartered are official signatories), the figures for the six plants above stand as minimum amounts for now. Further new coal plant projects in the countries are proposed for financing – projects which can now become ‘bankable’ under HSBC’s new policy leniency towards coal power for the next five years, as well as under the similar approach which Standard Chartered is potentially set to adopt.

If the planned plants in those countries not already in operation do receive finance and are fully constructed, they would use up 14% of the remaining emissions over their lifecycle that coal plants can emit globally in order to meet the Paris Agreement targets (emitting 16.74 gigatonnes (16,741 Mt) from the carbon budget for coal-fired power plants of 117 gigatonnes).³²

The figures for wasted capital are also alarming. The wasted capital involved in the six plants, which could instead be contributing to the clean energy transition, amounts to **\$15.37 billion**. The wasted capital in the three countries combined would involve up to a potential **\$213 billion** squandered on coal power instead of renewable alternatives.

This risk is increased by the fact there are already serious over-capacity issues for coal power in both Indonesia and Vietnam. In the former, the government had planned to add another 35,000 MW of electricity generation by 2019, of which 20,000 MW would have been from coal. In May last year, this was significantly slashed to just 15,000 MW of new overall electricity generating capacity by 2019, with some plans cancelled and 9,000 MW put on hold until 2024. The Energy Minister cited over capacity of power stations, based in part on overly optimistic economic growth predictions.³³

In Vietnam, the extra capacity for coal-fired power that has been added is increasingly outstripping demand. This has led to a drop in the utilisation of coal power stations from 73% in 2010 to 57% in 2017, meaning that nearly half of the added coal-fired power was superfluous.³⁴

³⁰ The Independent, June 2018, ‘Green technology to burst ‘carbon bubble’ in catastrophe for fossil fuel economies, research predicts,’: <https://www.independent.co.uk/news/business/news/carbon-bubble-global-wealth-mass-unemployment-fossil-fuels-climate-change-research-a8382631.html>

³¹ Financial Times, April 2018: <https://www.ft.com/content/a05e77e0-43ee-11e8-93cf-67ac3a6482fd>

³² Based on a the 40 year average lifetime of coal plants, using figures in the CoalSwarm Global Coal Plant Tracker based on annual emissions for plants not yet operating in Indonesia, Vietnam and Bangladesh. See https://docs.google.com/spreadsheets/d/1GK80KD3k-taM2_CFF_aWTTKSQsw1ozqFbOeKAbF6Hl4/edit#gid=0

³³ Mongabay, May 2017, ‘Facing oversupply, Indonesia scales back its coal-based electricity plan,’

<https://news.mongabay.com/2017/05/facing-oversupply-indonesia-scales-back-its-coal-based-electricity-plan/>

³⁴ In 2010, Vietnam had 2,626 MW of coal power plants producing 16.9 terawatt-hours of electricity over the whole year. In 2017, it had 14,971 MW of coal plants producing 74.3 terawatt-hours over the year. For electricity production from coal see BP World Energy Outlook 2017, Statistical Review: <https://www.bp.com/en/global/corporate/energy-economics/statistical->

Public health aspects: making a killing

- In 2017, researchers from Harvard University published a research showing paper showing that the number of premature deaths from air pollution due to coal in South East Asia is expected **to rise by approximately 50,000 people per year by 2030**.³⁵
- There are an estimated **20,000 premature deaths per year** due to coal pollution from currently operating power plants in Southeast Asia.
- Under a scenario which considers the planned growth in coal plants across the region, the research estimates that this number is expected to rise to **70,000 premature deaths per year by 2030**. The research points out that the largest mortality tolls, as a result of coal plant pollution, are found in Indonesia and Vietnam.

HSBC and Standard Chartered's financing of current and potential future coal plant deals will contribute to the premature deaths of thousands of people in Indonesia, Vietnam and Bangladesh. This is exacerbated by the fact that all three countries have weak air pollution controls for coal plants compared to others, especially the EU and China. This means that harmful pollutants such as sulphur dioxide and NOx can be up to five times higher in these three countries than the EU and China³⁶. Based on the current estimated number of premature deaths alone, this is wholly unacceptable. But the projected steep rise in this mortality rate to 2030 if more new coal plants are financed and built makes the banks' potential role in this scandalous.

The shocking reality of deaths from air pollution has galvanised many governments to row back on coal plans, notably China. The Indonesian government has now begun to respond. In April, the Energy Minister announced that due to air quality concerns the government would not allow any more coal plants on Java beyond those already approved. This poses a risk that the Indonesian government might extend the policy and cancel approvals for plants at a more advanced stage, in effect rendering the coal plants stranded assets.³⁷

Crying out for financing: renewable electricity generation in Southeast Asia is waiting to happen

Rather than continuing to plough \$15.3 billion more into coal plants in Southeast Asia, HSBC and Standard Chartered should now be ignoring the dubious arguments of the industry and instead concentrate on supporting the region's immense renewables potential.

A 2017 report from the International Energy Agency shows that the path to **100 percent global energy access by 2030** will require mostly investments in off-grid solar and small hydro.³⁸ Public health and climate concerns aside, centralised coal-fired generators cannot deliver for the one billion people worldwide, which the United Nations estimates to be living far from electricity networks and in energy poverty.³⁹

[review-of-world-energy/downloads.html](#) in particular the downloadable spreadsheet "Statistical Review of World Energy – all data 1965-2017" and within this the section showing electricity generated by coal. For overall amount of MW of coal plants see Global Coal Plant Tracker, summary statistics page, sheets Coal Plants By Country (MW) and New Coal Plants by Country (2006-17) <https://endcoal.org/global-coal-plant-tracker/>

³⁵ Environmental Science & Technology, January 2017: 'Burden of Disease from Rising Coal-Fired Power Plant Emissions in Southeast Asia', <https://pubs.acs.org/doi/pdf/10.1021/acs.est.6b03731>

³⁶ While HSBC's coal policy states that it will not fund coal plants with technology that emit more CO2 than other types of coal plants, this does not effect other harmful emissions as much. The most efficient coal plants (ultrasupercritical) will only emit up to 14% less other harmful substances. The biggest reduction comes from regulations, which specify that coal plants must be modified to reduce non-CO2 emissions. See <http://energypost.eu/how-much-do-ultra-supercritical-coal-plants-really-reduce-air-pollution/>

³⁷ Rambu Energy, April 2018, 'Indonesia to stop issuing new permits for coal generators in Java,':

<https://www.rambuenergy.com/2018/04/indonesia-to-stop-issuing-new-permits-for-coal-generators-on-java/>

³⁸ International Energy Agency, 2017, 'Energy Access Outlook 2017,':

http://www.iea.org/publications/freepublications/publication/WEO2017SpecialReport_EnergyAccessOutlook.pdf

³⁹ United Nations Sustainable Development Platform, 'Goal 7': <https://sustainabledevelopment.un.org/sdg7>

Yet, off-grid renewable energy solutions, which can run in remote areas without power networks and storage, and are therefore vital for development needs, are crying out for the catalysing influence of big bank financing. According to recent comments from Alzbeta Klein, director and global head for climate business at the International Finance Corporation, “The technology [involved in off-grid solar energy] is still relatively young, and bankers need to learn how to finance that, just like bankers learned to finance solar and wind over the past decade”.⁴⁰

Bangladesh, Indonesia and Vietnam do have feasible and affordable renewable energy alternatives, which HSBC and Standard Chartered ought to focus on, instead of coal plants and companies.

Huge financial risk (shifting economics turning coal plants into stranded assets)

Even if the major climate and public health consequences were put aside, providing loans to coal-fired plants poses a serious financial risk. The dramatic and ongoing drop in the cost of renewable energy is already making it cheaper than coal generated electricity in many places. This shift in the economics has begun to leave coal plants stranded, with India providing a stark lesson.

Construction has been frozen at Indian coal plant construction sites equal to 17,000MW of generation. According to the Ministry of Power this is most often because of financial problems.⁴¹ In one particularly chilling example for financiers, the Indian power giant Tata has put up 51% of its stake in a coal plant for the price of 1 Rupee. This came after the project lenders stopped disbursement of loans due to the non-viability of the 4,000MW project in Gujarat.⁴²

In contrast, the fortune of renewable projects could not be more pronounced. On 21 June, the Power Minister R.K. Singh announced a new tender for 100,000MW of solar generation – the biggest in the world to date.⁴³ This is on top of a separate 10,000MW tender for renewable electricity generation that India will open this month. The Minister said he expects India to exceed its renewable energy target of 175,000MW by 2022.

Vietnam is vulnerable to these shifting economics. A recent study found that coal power is considered to be cheaper than renewable energy there only because the environmental, social and health impacts of burning coal are not factored in. Investors are not paying these costs, but the government has to bear them. The study showed that when these external costs are taken into account, renewable energy can already compete with coal power today.⁴⁴

The political support is also shifting towards renewables in Vietnam. The Vietnamese President announced earlier this month that he wants to develop the country’s immense potential for renewables, pointing out “Vietnam is blessed with immense potential for clean renewable energy development”.⁴⁵ At the very least, this will involve tripling the amount of electricity it produces from renewable sources and pushing for a 26 percent

⁴⁰DevEx, June 2018, ‘Can off-grid renewables close the energy access gap?’: <https://www.devex.com/news/can-off-grid-renewables-close-the-energy-access-gap-92828>

⁴¹ SourceWatch, ‘Troubled Indian Coal Plant Construction Sites,’ outlines both the plants which have been put on hold and where the Ministry has stated that this involves financial problems:

https://www.sourcewatch.org/index.php/Troubled_Indian_Coal_Plant_Construction_Sites

⁴²The Hindu Business Line, June 2017, ‘Tata Power offers to sell 51% of Mundra Plant for R1’:

<https://www.thehindubusinessline.com/companies/tata-power-offers-to-sell-51-of-mundra-plant-for-1/article9732822.ece>

⁴³Reneweconomy, June 2018, ‘India energy minister flags massive 100GW solar tender’:

<https://reneweconomy.com.au/india-energy-minister-flags-massive-100gw-solar-tender-76760/>

⁴⁴GreenID, October 2017, ‘Analysis of future generation capacity scenarios for Vietnam:

http://en.greenidvietnam.org.vn/app/webroot/upload/admin/files/060618_GreenID_Study%20on%20future%20power%20sources.pdf

⁴⁵Reuters, June 2018, ‘Vietnam sets out green ambitions with targets for solar, rare earth:’

<https://af.reuters.com/article/energyOilNews/idAFL3N1T624W>

increase in household solar energy usage by 2030. With the government due to release an updated long-term energy plan next year, its target for increasing renewables and decreasing plans for coal might go even further.

According to a 2017 World Bank study, “compared to other countries of the world, Indonesia has very favourable potential for [solar] PV for power generation.”⁴⁶ This should give pause for thought for the government and banks. Especially because coal plants in Indonesia are also faced with precarious economics, posing a serious risk for any bank considering financing them.

The government already pays a high level of subsidies for power generation and this is set to go up, from \$3.6 billion last year to as high as \$9.6 billion by 2021, according to the Institute for Energy Economics and Financial Analysis (IEEFA).⁴⁷ The government is already under pressure because of the scale of these subsidies, so it remains questionable whether it and successive governments will have the appetite to continue paying such large amounts over the coming decades, not least because research has shown the cost of coal power to be inflationary in Indonesia and of renewables to be deflationary.⁴⁸ This creates a clear risk of coal plants in Indonesia becoming stranded assets.

Bangladesh also has significant potential for renewable energy scale up. It currently has the world’s largest and most successful base of solar home systems, installed on some 4.5 million off-grid residences. A report in 2016 showed there is scope to accelerate this program to costily effectively and rapidly deliver on the government program for electricity for all citizens by 2021.⁴⁹

If HSBC and Standard Chartered are genuine about support the economic development of Vietnam, Indonesia and Bangladesh, they should not finance coal power in these countries. Instead, they should find a way to finance clean and cheaper renewable development.

In particular, the coal policy of both banks should have three key elements, which exclude:

1. Project finance to new coal mines and coal-fired power plants worldwide, with no exception
2. General corporate financing and advisory services to companies who are highly dependent on coal mining or coal power.⁵⁰
3. All exposure to companies involved in coal, creating a time bound plan to achieve this.

⁴⁶The World Bank, May 2017, ‘Solar Resource and Photovoltaic Potential of Indonesia’: <http://documents.worldbank.org/curated/en/729411496240730378/pdf/115347-ESM-P145273-PUBLIC-IndonesiaSolarResourcePotentialWBESMAPMay.pdf> e.g. p71

⁴⁷ Institute of Energy Economics and Financial Analysis, June 2018, ‘Losses make Indonesian electric company a high-risk bet’: <http://ieefa.org/ieefa-op-ed-losses-make-indonesian-electric-company-a-high-risk-bet/>

⁴⁸ Institute of Energy Economics and Financial Analysis, ‘Overpaid and Underutilised – How Capacity Payments to Coal-Fired Power Plants could lock Indonesia into a high-cost electricity future’: See pp25-7 <http://ieefa.org/wp-content/uploads/2017/08/Overpaid-and-Underutilized-How-Capacity-Payments-to-Coal-Fired-Power-Plants-Could-Lock-Indonesia-into-a-High-Cost-Electricity-Future- August2017.pdf>

⁴⁹ Institute of Energy Economics and Financial Analysis, November 2016, ‘Bangladesh Electricity Generation – A Safe, Secure and Deflationary way forward’: <http://ieefa.org/wp-content/uploads/2016/11/Bangladesh-Electricity-Transition-NOVEMBER-2016.pdf>

⁵⁰ Highly coal-dependent companies are defined as those where over 30% of their revenues or energy mix comes from coal; AND/OR annual production, trading, or consumption of coal exceeds 20 million tonnes annually; AND/OR installed power capacity is greater than 10,000 MW; AND/OR the company is planning investments into new coal-related infrastructure. Such criteria are designed to ensure that highly diversified companies, such as Tata or Marubeni, who may fall below the 30% threshold but who have large absolute exposures to coal are still accounted for.