

Road to hell paved with burning coal...

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Looking at the [2017 IJ League Tables](#), one thing leaps off the page – the number of coal-fired power plants that made it to financial close over the course of the calendar year.

That's a surprising stat to pick out at first glance, and leaves you thinking that surely – in this increasingly sustainable world – involvement in such deals must be fairly challenging for lenders.

In total, 11 projects made it over the line, almost all of them in energy-hungry emerging markets:

- [Tanjung Jati B](#) Coal-Fired Power Plant, units 5 & 6 (2,000MW) – **Indonesia** – \$3.355 billion of debt over 23 years (half of which was from JBIC)
- [Hub Coal Power Plant](#) (1,320MW) – **Pakistan** – \$1.5 billion of senior debt with strong Chinese ECA support
- [Duyen Hai 2](#) Thermal Power Plant (1,200MW) – **Vietnam** – \$1.76 billion of debt
- [Sahiwal](#) Coal-Fired Power Plant (1,320MW) – **Pakistan** – \$1.44 billion of debt
- [Cirebon 2](#) Coal-Fired Power Plant (1,000MW) – **Indonesia** – \$1.74 billion debt over 22 years and 3 months. Direct ECA loans and 2 tranches with NEXI and Kexim wraps
- [Bataan](#) Coal-Fired Power Plant 2 (668MW) – **Philippines** – \$436 million of debt over 12 years
- [Hitachinaka](#) Coal-Fired Power Plant (650MW) – **Japan** – \$1.15 billion of debt with all the usual suspects
- [Sumsel 1](#) Coal-Fired Power Plant (600MW) – **Indonesia** – \$520 million of debt
- [KalSel Coal-Fired Power Plant](#) (200MW) – **Indonesia** – \$422 million of debt over 20 years
- [Bengkulu](#) Coal-Fired Power Plant (200MW) – **Indonesia** – \$270 million of debt with strong ECA support
- [HQ Peat-fired Power Plant](#) (80MW) – **Rwanda** – \$345 million across 4 tranches (OK, it's not actually coal... but give it time!)

That amounts to \$13.13 billion in project finance loans arranged for coal-fired plants throughout the course of 2017. A drop in the ocean when compared with the \$242.13 billion of PF loans lent globally across the infra sectors last year, but a long way from chump change.

To put it in context, 9 coal-fired power plants closed the previous year (2016) and 14 the year before that (2015). As a trend, it runs contrary to the Equator Principles and comes as a surprise to those who are fed a daily diet of renewable energy propaganda.

Chatting about this with folk in the market this week, the first question is: "Who the heck's lending to that?"

This echoes the antipathy for coal exuded by lenders in New York around the time that Donald Trump threw his weight behind it. Every PF lender on the ground said they wouldn't touch it with a barge pole.

It's not quite the same on these deals. Where Japan Inc, China Inc and Korea Inc lead – the national banks follow.

Furthermore, they can rely on the relevant ECAs (from JBIC to China Exim Bank and Kexim) and DFIs (KDB through to the Development Bank of Rwanda) to turn up cheque book in hand.

However, changes to rules affecting OECD ECAs that came into effect last year might see some step away from supporting the adoption of heavy plant for coal-fired energy in other countries. Having said that, when these rules are couched in the terms of "gentleman's agreement", it doesn't fill you with confidence that change is on the cards.

As for the commercial lenders, established regional banks that have long-term relationships with the power heavyweights, find themselves being dragged to the table... whether they like it or not.

This includes (sorry to name and shame) the likes of:

- Japan – Mizuho, MUFG, SMBC, Resona Bank, Norinchukin Bank, SMTB

- China – ICBC, China Construction Bank, Bank of Communications, China Banking Corporation
- Philippines – Security Bank, Bank of the Philippine Islands, Rizal Commercial Banking Corporation, BDO Unibank
- Singapore – DBS, OCBC Bank

Given the location of the projects, nationality of the banks and the sponsors involved, you can understand the above lenders being “encouraged” to support these deals.

However, it came as a surprise to see these two European banks getting stuck in:

- HSBC – on KalSel
- ING – on Cirebon 2

You can understand HSBC’s involvement given its historic links to Asia, but ING being there comes as a shock.

In December (2017), the Dutch bank announced that it had “decided to accelerate the reduction of our financing to coal power generation”, reducing its exposure to “close to zero by 2025”.

Well ING, you’re not off to a very good start given that Cirebon 2 closed a little more than a month before you made that laudable – and in light of just having closed a 1,000MW coal-fired power plant in Indonesia, one might say hypocritical – announcement. Hang your head in shame!

Oh, and both ING and HSBC are signatories to the Equator Principles. Same goes for a good number of the earlier list of lenders (mostly in the Japanese section).

Black Gold

Operating in the world of transition away from polluting sources of energy towards clean, the involvement of international lenders in the project finance of coal-fired power plants will likely be phased out in years to come.

But why is it just be the banks being pilloried for their involvement in such deals? How about the lawyers, financial advisers, technical advisers – the entire advisory chain should be given the chance to share the pariah status.

As for international law firms, some of the biggest names in the PF space have been linked to these deals:

- Allen & Overy
- Allens
- Clifford Chance
- Hogan Lovells
- Hunton & Williams
- Latham & Watkins
- Milbank Tweed
- Norton Rose Fulbright
- Shearman & Sterling

If the banks are being “encouraged” to clean up their acts, why not law firms? They both trumpet involvement in renewable energy deals, basking in the reflected glory of having had a hand in realising them – so why not take clarion the role you play on the flip-side.

The end result of this, of course, will be a small group of “dirty” firms that do the deals “responsible” firms shun for fear of reputational damage... while enviously looking on as former colleagues close a succession of multi-billion dollar coal-fired power plants.

In the lending space, BNP Paribas took a stance late last year (November). It announced that it would no longer work with oil and gas companies primarily involved in shale or oil sands. It went further, saying it would not even finance new projects primarily involved in the transport or export of oil and gas from shale or oil sands.

That’s quite a ballsy statement and is possibly being echoed by other lenders... but not so loud that folk in the cheap seats can hear.

Remember the sub-prime crisis? All those banks confident stating that the real estate team had not invested in sub prime... because it had been warned off it by the powers that be. Sadly that message didn’t reach other teams that promptly filled their boots with paper that was soon to be all but worthless. And that’s why it took banks so long to work out whether – or by how much – they had been impacted by the sub-prime crash.

Another thing, it's a bit hypocritical of those living in developed economies where they still have coal-fired power plants to complain about new plants being built in, say, Indonesia.

Germany for example – with its historic commitment to green energy and plans to lower carbon-dioxide emissions 40% by 2020 – still relies on coal (lignite at that) for 40% of its energy. Don't even look at Eastern Europe with its hugely inefficient Soviet era plants.

All this hand-wringing is a tad galling for those in developing economies who rightly argue that the rest of the world was built on the foundation of dirty energy, so why shouldn't they take advantage of a cheap, accessible and plentiful energy source.

Goodness knows how long it will take for PF lenders refuse their services to the power giants. In truth, it will likely take legislation to stop them.

The first step we shall likely see is the DFIs stepping away from coal deals with the ECAs left to take up the slack and national banks bullied into playing ball.

Carbon capture and storage will serve as a massive game changer on this front, if it can be made to work. For now, it's a nascent technology and – while there is lot of talk about it – we're not seeing an awful lot of action at the coal face (excuse the pun).

Not always the worst thing...

Chatting with an old chum this week, it was interesting to hear about a coal-fired power plant in Eastern Europe that failed to make it off the drawing board. He says it would have had made a significant improvement to the carbon footprint of the country had it been given the green light.

"If it had been successful, it would probably have been the single biggest contributor to reducing carbon emissions of any project in Europe," he says.

How does that work?

When you're replacing ageing Soviet Bloc power plants with ultra and supercritical technology, you're doing the world a favour. This stands especially true when you're taking offline hugely inefficient plants that are billowing out more noxious gases than you would care to inhale.

"The older of the old power plants are just so horrific in terms of pollution. In terms of carbon, they are off the chart," he says. "New coal-fired power plants with ultra and supercritical technology are much cleaner and much less polluting.

"So, if you can take out an old one and replace it with new, although it might still be emitting – it can be the biggest contributor you could imagine in terms of reducing emissions."

Interesting point. And down the line, there's always the option of doing a Drax – converting to gas and bolting on biomass.

However, the practical reality for many countries (particularly low- and middle-income economies) is that with coal on tap as the feedstock, it would be madness to do anything but build a coal-fired power plant – environment be damned.

Fortunately for them, there are banks and advisers on hand to deliver them. When that changes – and it's fair to assume it will – they will have to make do with a back-street gaggle of Z List banks and wide-smiled advisers... carpet baggers and second-hand car salesmen.

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