ADDING COAL TO THE FIRE

An overview on where China stands in 2021’s historic exit from international coal projects

October 2021

As governments negotiate on putting an end to the public financing of the world’s remaining international coal power projects, all eyes are on China and its next move.

Our research on China’s new and ongoing international coal-fired power deals show that while project completion rate is on the decline, and the cancellation rate of projects in a number of countries has risen during the past year, there is a risk that over 3,645 MW of newly announced deals from 2021 in Bosnia and Herzegovina, Indonesia, the Philippines, and Serbia, as well as 10 GW of planned projects in six countries across Europe, Asia and Africa may receive financing or at risk of getting built and put into operation.

In September 2021, during the United Nations General Assembly, President Xi Jinping pledged that China would not build any further coal-fired power stations abroad. He made this promise when addressing climate change impacts, as part of a two-pronged statement that acknowledged the need to support green and low carbon energy in developing countries. When asked by the press if Xi’s UNGA pledge applies both to financing and the construction of coal projects abroad, China’s Ministry of Foreign Affairs was at loss for words on details the pledge entails.

The world turns away from coal

In tackling export financing and tied aid for coal-fired power plants, members of the Organization for Economic Cooperation and Development (OECD) led by the European Union, South Korea, United States, Canada, Norway and Switzerland advocated for the introduction of an immediate ban of export finance to coal power plants in the review of the OECD-wide 2015 Sector Understanding on Export Credit for Coal Fired Electricity Generation Projects.

In October this year, OECD countries including Japan, Australia and Turkey reached an agreement to end export credit support and tied aid for unabated coal-fired power plants, making it the first internationally binding agreement that puts an end to export support of international coal projects by the end of 2021.

Recognizing that coal power generation is the single biggest cause of global greenhouse gas emissions, Group of Seven (G7) members – Japan, Canada, France, Germany, Italy, the United Kingdom and the United States – in June this year came together and committed to an end to government support for unabated international thermal coal power generation by the end of 2021. Government support is defined as export finance, Official Development Assistance (ODA), and a broad blanket of financial and trade support.

Ahead of the Group of Twenty (G20) Rome Summit in October 2021, media reports have hinted at how climate talks have stalled ahead of the October 30th Leaders’ Summit, putting at risk a much-needed global cessation to financing of international coal projects.

A joint commitment to end government support for international coal at the G20 this year would mark a departure from the G20 summit in 2017, where the Chinese leader Xi called for efforts to support low greenhouse gas emissions strategy among multilateral development banks, while allowing China’s top-tired state bank, China Development Bank, to approve a US$1.5 billion loan to South Africa for the completion of the Mepudi coal project, just two days before the summit.
According to this account, China has been the largest supporter of coal projects that rely on international financing. From 2010 to 2020, 180 gigawatts of China-backed international coal plants were built or commenced construction, amounting to 1.5 times the entire coal-fired capacity of the European Union and the United Kingdom combined.

China – in or out of international coal?

While sitting out the recent G7 and OECD negotiations on ending government support for international coal projects, China continues to make encouraging but vague official iterations about ending the construction of international coal projects at home and abroad. However, absent from these statements are the much-needed details that would see China delivering on the climate-saving action that would be made possible by the immediate cancellation of all forms of financing, insurance and the early construction and associated facilities of its coal projects around the world.

Days after Xi’s UNGA ‘coal exit’ pledge, the Bank of China - one of the country’s four state-owned commercial banks - stated that it would no longer provide financing for new coal mining or coal-fired power projects overseas, effective from October 2021. This watershed announcement marks Bank of China’s departure from international coal projects - the first of its kind by any Chinese state-owned bank.

While the policy seemingly marks a shift away from financing new coal powers and mining, it does not include planned coal projects where preparatory construction work has already begun, with financing options in development or a financial close already secured. According to this joint NGOs call on Bank of China to get out of coal, the bank is involved in at least seven international coal projects, totalling approximately 10 GW of new coal power capacity planned in Bangladesh, Zimbabwe, Botswana, Turkey and Vietnam.

It remains unclear how financing or investment are put in place by the governments of recipient countries and Chinese financial institutions or parastatals, for projects that have been found to be ill-conceived and implicated in questionable environmental and social assessments (see below). Construction of such projects often commences despite failing to meet the legal environmental assessment and permitting requirements.

As explained in the cases described later in this briefing, many of these coal power plant projects have been delayed due to being mired in scandals relating to problematic environmental, pollution and social impacts, or because of legal challenges - even if the projects reached a financial close with China’s state banks or investors years earlier. Such deals, i.e. those that are not considered new – planned, under construction, or stalled - must be included in the action plan as follow-up to China’s pledge, if it is to be taken seriously and on par with other international commitments that tackle the financing of international coal projects.

Chinese SOEs at the top of pyramid

The designated Build, Operate, and Transfer (BoT) operators or Engineering, Procurement and Construction (EPC) contractors, are central to all China-supported international coal projects. Chinese power generation and coal technology companies, and are a vital component of the overseas coal investments the Chinese government supports through a myriad of ODA, export finance or equity investments undertaken by state-controlled and subsidized companies.

In some cases, international coal projects involving Chinese state-owned enterprises (SOEs) have EPC contracts signed, even when the environmental impact assessments are faulty, and the permitting procedures are challenged in the court of law. This highlights the questionable legal legitimacy of these projects.
Serbia’s Kostolac B3 lignite power plant project is such an example. The Export-Import Bank of China (China Eximbank) and the Chinese regulators signed off a loan for the project, despite it having an incomplete environmental impact assessment (EIA) that failed to include critical aspects of expanding a coal mine that situated between and close to nearby villages; the construction also began without a valid construction permit.

An earlier project, the installation of desulfurization system in 20217 that undertaken by China’s Machinery Engineering Corporation that was meant to reduce pollution measures of the existing units 1 and 2 of the Kostolac power station is still not working. The newly proposed Kolubara B coal project in Serbia is another case of how China’s SOE, PowerChina, secured an EPC contract before the EIA was completed.
Bosnia’s Tuzla 7 coal power plant and coal mine project, which secured a loan from China Eximbank in 2017, is still embroiled in multiple investigations undertaken by international convention bodies citing environmental permitting and access to environmental decision irregularities. Meanwhile, the project’s Chinese leading EPC contractor China Gezhouba found its equipment supply deal for project hanging by a thin thread, after Europe’s Siemens and Polish RAFAKO, as well as Japan’s Mitsubishi, refused to supply the equipment needed for the coal plant, on the account of their own coal exit plans; Gezhouba’s contracted supplier General Electric “decided to exit from the new-build coal power market due to the global trend of phasing out coal.”

One month prior to Xi’s UNGA pledge, China Energy Engineering Corporation (CEEC) secured an EPC contract for the construction of a combined 1,140 MW of coal-fired power units in the Tsingshan industrial park for production of nickel in Labota, Central Sulawesi in Indonesia. The purpose of the project, like another newly announced 120 MW coal-fired power plant in an EPC contract with CEEC’s subsidiary China Gezhouba in Kalimantan, is meant to supply electricity for the alumina refinery and production complex in Indonesia. However, Tsingshan announced that the company would “stop building coal power plants in Indonesia and overseas” on the heels of Xi’s pledge, suggesting the plan for the mega coal-fired power station in Sulawesi may just well be suspended until further clarification.
Transparency key to Xi’s action plan

Unlike other major economies that have been required by several internationally binding mechanisms to disclose their consideration for and transactions of international coal projects, China’s regulators responsible for overseeing the approval of Chinese enterprises that undertake international projects with governmental financial support – including coal – are not required to proactively disclose real time project or loan appraisal information. This makes the monitoring of critical information specific to project appraisal, project status and financial disclosure difficult.

Further to this worrying lack of transparency, NGOs have, during several years of monitoring, observed how the weakening of national law and transparency requirements have provided loopholes for large-scale infrastructure investments from China, including several coal projects.

At the project level, for communities who fear and suffer the local impacts of governmental decision to acquire land necessary for the undertaking of coal infrastructure projects, there has been very few means in a climate free of fear to engage directly with the Chinese actors to address their concerns.

In the absence of routine public consultations and exchanges with Chinese actors, perhaps in addition to the climate and environment saving measures of Xi’s “international coal exit” pledge, China should acknowledge for the first time it no longer has the social license to build coal projects in the Belt and Road countries where local people have opposed them.

An overview of China’s active international coal projects 2020-2021

The crucial details of China’s overseas coal exit criteria and an actual exit date are yet to be defined. The Chinese leader’s carefully worded pledge omitted to mention the cluster of planned coal projects in various stages of pre-construction, awaiting permits, with or without loan agreements or investment deals signed. If left undefined, the broad landing zone of China’s pledge risks allowing the continued construction and operationalization of coal-fired power plants for a total installed capacity of nearly 30 GW or more in Bosnia-Herzegovina, Cambodia, Indonesia, Ivory Coast, Malawi, Montenegro, Pakistan, Philippines, Serbia, South Africa, Vietnam, Zimbabwe, and a few other countries.

The below overview of China’s recent and ongoing international coal projects captures 1) 2021 new deals that the SOEs specializing in power generation have announced as per listing requirements at stock exchanges, 2) permitted, announced and projects under construction reported by project promoters, as well as 3) monitoring reports by NGOs and the communities they support. The research excludes coal power plant projects that have been cancelled, shelved or stalled since 2020 even if permit procedures were underway; the vast fleet of China’s newly built coal-fired power stations worldwide that are connected to the grid are also not included in this research.
CHINA'S COAL PROJECTS IN THE WORLD

CHINA'S ACTIVE INTERNATIONAL COAL PROJECTS 2021

NEWLY ANNOUNCED PROJECTS IN 2021 (capacity in Megawatts)

- BOSNIA AND HERZEGOVINA: 700 MW
- INDONESIA: 1260 MW
- PHILIPPINES: 15 MW
- SRI LANKA: 350 MW
- SOUTH AFRICA: 1320 MW
AT RISK OF GETTING BUILT (capacity in Megawatts)

UNDER CONSTRUCTION (capacity in Megawatts)

- Cambodia: 1065
- Indonesia: 3100
- Pakistan: 2250
- Serbia: 350
- South Africa: 4800
- Turkey: 1320
- United Arab Emirates: 2400
- Vietnam: 1200

CANCELLED IN 2020 AND 2021

- Bangladesh: 7650
- Ghana: 700
- Kenya: 1000
It is worthwhile to note how Bangladesh, home to one of the biggest Chinese overseas coal hotspots, decided in mid-2021 to scrap 10 of the country's planned coal power projects. The Bangladeshi government cited negative impacts on the environment and challenging financing conditions as reasons for failing to get the projects built, despite their being approved many years previously. This announcement resulted in the cancellation of eight coal power station projects totally 2640 MW, all involving Chinese SOEs, including Power China, its subsidiary China Gezhouba, and Shanghai Electric.

Financing and the enabling of international coal decisions, especially those involving Chinese entities, are known to rest on a spectrum of considerations including the ease of doing business, regardless of whether diligence standards and feasibility studies have been passed with flying colors.

Several countries that have ongoing and uncancelled coal deals with Chinese entities have outstanding debt owed to either a Chinese institution or the country. Serbia is a key example: a small country edged between the European Union and EU aspirant states in Southeast Europe, which has taken 11 loans from China Eximbank for the implementation of Chinese-companies led mega infrastructure projects in the coal, mining, and transport sectors.

In Africa, Zimbabwe's planned 2,800 MW Sengwa coal power project recently suffered a recent setback when the arranged financing option from China fell apart. Well documented broad community resistance against the project citing serious ecological and involuntary resettlement issues, as well as the project's questionable EIA, challenged by Zimbabwe's legal NGO ZELA, have all shaped the international perception of this project. At the same time, A country like Zimbabwe that is over-reliant on foreign borrowing and has high debt exposure to China makes it vulnerable to facilitating ill-conceived coal infrastructure deal whose ultimate beneficiaries may only be the Chinese SOEs.
In some cases, China is not the only country guilty of pouring fuel on the coal fire in countries that battle extreme environmental pollution and inequality caused by coal infrastructure projects. In 2018, China Development Bank (CDB) provided a loan of US$2.5 billion to South Africa’s public utility Eskom for the Kusile coal power plant which has a total of 4,800 MW in planned capacity. CDB’s financing played a crucial role in a wider range of commercial, multilateral and export credit financing options for the realization of the Kusile project. In 2019, BRIC’s bank, the New Development Bank, issued a US$480 million loan for the false environmental improvement solutions for South Africa’s Mepudi coal power plant, a project that received US$1.5 billion two years prior from China Development Bank.

While Chinese leaders’ “coal exit” pledge at the UNGA may alleviate global climate anxiety, it would be remissive to examine the future developments of these Chinese international coal projects solely through the lens of greenhouse gas emission reduction measures alone. The lifespan of a coal power plant that gets can be 40 or 50 years, causing irreversible impacts to the climate, environment and communities. Those who suffer the health impacts, and the local ecosystems that that are destroyed rarely make it into China’s equations when calculating its support for overseas coal projects. A much-needed global cessation to financing and construction of international coal projects that is essential to the solving global climate crisis and coal-induced health impacts hinges on China’s action, not its words.

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1 Aarhus Center Sarajevo, Aarhus Center Tuzla, and Center for Environment in Bosnia and Herzegovina, Center for Ecology and Sustainable Development, Serbia (CEKOR), The Coalition for Sustainable Mining (KORS), and Renewable Energy Research Institute (RERI) in Serbia, The Indonesian Forum for Environment (Walhi South Sulawei and Walhi West Java), Young Volunteers for the Environment (JVE) in Ivory Coast, groundWork and Centre for Environmental Rights in South Africa, Coastal Livelihood and Environmental Action Network (CLEAN) in Bangladesh, Rivers without Boundaries in Eurasia, Zimbabwe Environmental Law Association (ZELA), and the People’s Map of Global China (Cambodia).