Japan and South Korea signal move away from coal after mounting criticism

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Abstract:
Japan and South Korea, the world's two big providers of public finance for coal-fired power plants, have recently signaled ending their support for overseas coal plants, following over 120 globally significant financial institutions' similar move. This move, prompted by strong international and domestic criticism by investors, media and NGOs, as well as diminishing financial appeal of these projects in face of rapidly developing markets for renewables, provides cautionary thoughts for China in both industrial and policy aspects.

Key words: Japan coal power finance, South Korea coal power finance, coal-fired power plants, overseas finance, public finance

Reference

Wang Yiting Susanne Wong Japan and South Korea signal move away from coal after mounting criticism. **Biodiversity Conservation and Green Development, Vol.1, No. 5, ISSN2749-9065**

Summary

Japan and South Korea, two of the world's largest providers of public finance for coal-fired power plants, have recently sent important signals that their support for overseas coal plants is coming to an end. This follows a global trend away from coal power as over 120 globally significant financial institutions have announced their exit from coal. These moves isolate and expose China, the world's top funder of overseas coal plants, to increased international scrutiny and criticism over the country's continued support for one of the leading drivers of the climate crisis, and from communities around the world who suffer from the direct health and environmental impacts of coal plants.

- In response to growing international criticism, the Japanese government issued a policy on July 9 stating that, "in principle," the government will not finance overseas coal plants. While the policy contains exemptions, Japan's Environment Minister Shinjiro Koizumi stated that the policy will make it difficult for the government to support overseas coal-fired power projects in the future, and JBIC itself has admitted that they will no longer finance coal. Japan is the world's second largest provider of public finance for coal power globally and the only G7 country still building new coal plants at home and overseas. Japan Bank for International Cooperation (JBIC) accounts for the majority of Japan's public finance for overseas coal plants, providing over US$14 billion since 2003.[1]

- South Korean legislators introduced a bill on July 28 that would prohibit government-owned utilities and financial institutions to fund coal projects overseas, citing falling clean energy costs in recipient nations, financial and reputational risks to South Korea, and the urgent need to tackle the climate crisis.[2] The ruling Democratic Party was reelected in a landslide victory in legislative elections in April based on a Green New Deal platform that included a pledge to phase out public financing for domestic and overseas coal. South Korea has provided roughly US$1.1 billion per year for overseas coal plants and ranks as the world's third largest provider of public finance for overseas coal power.[3]
- In October, within days after majority state-owned Korea Electric Power Corp. (KEPCO) decided to invest in the 1,200MW Vung Ang 2 coal power project in Vietnam, Korean public institutions finally signaled the virtual end to overseas coal financing during the annual audit of state affairs. KEPCO confirmed that the company and its subsidiaries had no more coal power projects in the pipeline after the Vung Ang 2 project, committing to cancel or convert the planned 1,000MW Sual 2 coal power project in the Philippines and the 630MW Thabametsi coal power project in South Africa. The Korea Trade Insurance Corporation (K-SURE), Korea Development Bank (KDB), and Ministry of Economy and Finance, also indicated the end to public overseas coal financing.
- Korean private financial institutions, too, have been cutting ties with coal. The country's five largest financial groups, including KB, Woori, Nonghyup, Shinhan, and Hana – along with Samsung and Hanwha financial affiliates -- have announced decarbonization or coal policies, largely ending new coal project financing and underwriting of bonds for the construction of new coal power projects. At a "Climate Finance Support Declaration" ceremony held on March 9, 2021, 84 financial institutions – including those that have already pledged to do so – committed to declaring an exit from coal finance by the Partnering for Green Growth and the Global Goals 2030 (P4G) Summit to be held in Seoul on May 30-31, 2021.
- Both countries' governments have also moved closer to phasing out their domestic coal consumption. In early July, Japan announced plans to close or suspend 100 aging and inefficient domestic coal power plants by 2030. South Korea's energy policy experts are in the middle of deliberating a roadmap to phase out coal between 2040 and 2050, possibly earlier. In November, the National Council on Climate and Air Quality (NCCA), an ad-hoc presidential advisory body led by Ban Ki-moon, proposed to the Korean government a coal phase-out year of "2045 or earlier" while also recommending

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[1] JACSES database.
[2] "South Korea proposes ban on overseas coal financing," Eco-business, July 30, 2020
And https://news.mt.co.kr/mtview.php?no=2020071517367686913
[3] G20 Coal Subsidies: Tracking government support to a fading industry, Overseas Development Institute, June 2019. https://www.odi.org/sites/odi.org.uk/files/resource-documents/12744.pdf

consideration of a "2040 or earlier" phase-out year given Korea's 2050 carbon neutrality commitment.

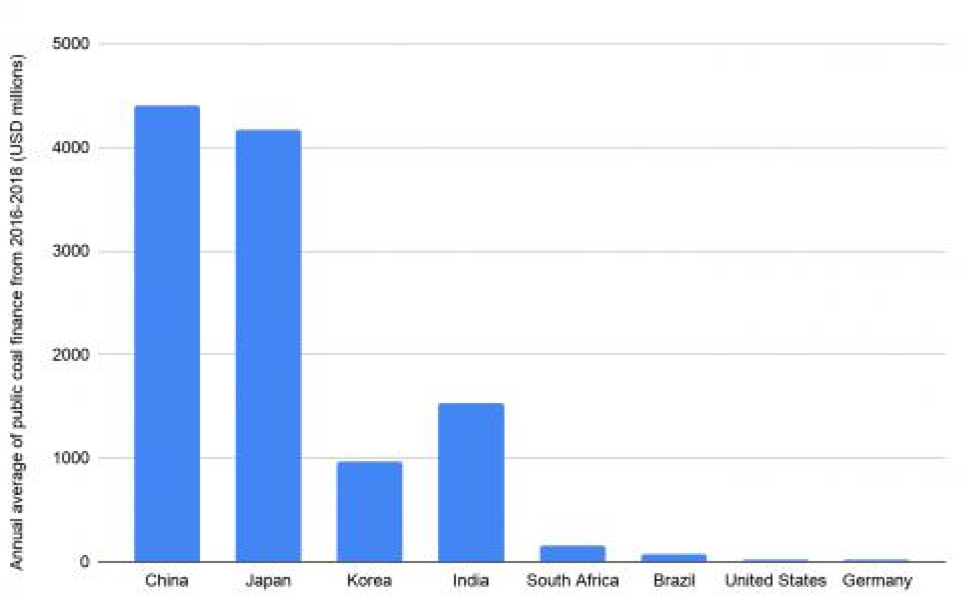
What does this mean to Chinese players

- The exit of Japanese and Korean financial institutions from overseas coal-fired power projects was prompted by strong international and domestic criticism by investors, media and NGOs, as well as diminishing financial appeal of these projects in face of rapidly developing markets for renewables. While this might seem to open up markets for Chinese businesses, continued Chinese investment in overseas coal power will likely expose the government to intense international criticism similar to that faced by the Japanese and Korean governments and companies.
- Japan has long exerted influence over other countries' power sector development strategies, especially in Asia, through its bilateral development cooperation institutions and the Asian Development Bank. If the Japanese government is planning to support countries in developing decarbonization strategies, it is important for China to play a proactive role in supporting decarbonization in BRI partner countries.
- The Korean government's multi-billion dollar bailout of coal plant manufacturer and construction firm Doosan Heavy and the majority government-owned utility KEPCO's decision to invest in a coal project in Indonesia despite projected financial loss, reflects the heavy price one has to pay for misreading the changing global power market signals of a rapid shift to renewables.[4] It would be a mistake for Chinese industrial policy and the public purse to continue to prop up the sunset coal export industry, rather than to hasten the transition necessary to position industrial players at the centre of the inevitable energy transition that is unfolding around the world.
- Investment in coal power threatens to undermine steps the Chinese government may take to address the climate crisis. Japanese Environment Minister Shinjiro Koizumi noted that criticism of Japan's support for overseas coal power projects overshadowed recognition of the country's efforts to reduce greenhouse gas emissions.
- As the COVID-19 pandemic has disrupted supply chains and infrastructure construction, governments in developing Asia and elsewhere face the risk of relying too heavily on China for equipment, labor and other supplies. This will especially be the case in countries such as Vietnam, Indonesia, and the Philippines where governments and utilities have managed a balanced relationship with Korean, Japanese and Chinese investors.
- Ending China's public finance for overseas coal power and committing to ambitious support and investment to develop a renewable-energy centered power infrastructure would be universally welcomed. China should assert a global climate and clean energy leadership that not only accelerates its own industrial upgrading but also generates momentum in creating a resilient and prosperous future that does not undermine our global and planetary health.

[4] "Creditors to offer additional W1 tril. for Doosan," *Korea Times,* June 3, 2020.

This briefing paper describes recent moves in Japan and Korea away from financing overseas coal power. This serves as a cautionary tale to Chinese officials that continued support for overseas coal plants risks China being perceived as an outlier in the region and globally as the last major financiers of coal shift direction.

East Asian Countries Lead G20 on Public Coal Finance



Source: [“Still Digging: G20 Governments Continue to Finance the Climate Crisis,”] Oil Change International and Friends of the Earth United States, May 2020.

Source: "The Global Coal Public Finance Tracker" tracks foreign government support for coal plant projects globally, Endcoal.org, last update July 2020

Japan slashes financing for overseas coal power

In response to growing international criticism, the Japanese government issued a policy on July 9 stating that, "in principle," the government will not finance overseas coal plants for any country that does not have a decarbonization policy. The shift in language is notable and reflects the fact that the world is rapidly moving beyond coal. Japan's Environment Minister Shinjiro Koizumi stated that the policy will make it difficult for the government to support overseas coal-fired power projects in the future.[5]

Historically, the Japanese government has been a leading provider of finance for overseas coal-fired power plants. Japan is the world's second largest provider of public finance for coal power globally and the only G7 country still building new coal plants at home and overseas. JBIC accounts for the majority of Japan's public finance for overseas coal plants, providing over US$14 billion since 2003.[6]

However, the government's policy has come under increasing fire over the last year from influential global leaders, climate experts, and a well-coordinated civil society campaign "No Coal Japan" who have called on Japan to demonstrate global leadership on climate change and end its support for coal. The Japanese government faced protests and criticism during its hosting of the G20 last year, at the UN Climate Action Summit in New York and at COP 25 in Madrid. UN Secretary General Antonio Guterres drove the point home, calling on governments in Asia to end their "addiction to coal" last year and to stop building all new coal plants after 2020. He recently renewed his calls, urging countries to stop financing coal and pledge not to build new coal-fired power plants to facilitate a shift towards clean energy.

Last year, Japanese officials from both the public and private sectors signaled their intentions to stop financing overseas coal plants. On April 22, Tadashi Maeda, the governor of the Japan Bank for International Cooperation, said in an interview that "we will no longer accept loan applications for coal-fired power generation projects."

Environment Minister and rising political star Shinjiro Koizumi called for an end to Japan's overseas coal finance, noting that international criticism of Japan's coal finance has

[5] According to a statement from Japanese NGOs, the policy states that the Japanese government, in principle, will not provide official support for new coal-fired power projects in any country where the Japanese government does not have a thorough understanding of that country's energy situation and issues as well as its policies toward decarbonization, such as through a framework for bilateral consultation regarding energy and environmental policies. The policy revision adds new conditions requiring the host country to move towards decarbonization and the use of Japan's most advanced coal technologies.

[6] JACSES database.

overshadowed recognition of the country's efforts to reduce greenhouse gas emissions.[7] Minister Koizumi played a key role in setting up the review of Japan's infrastructure export strategy. Japan's Ministry of Environment, Ministry of Economy, Trade and Industry and Cabinet Office set up separate committees to provide inputs to this policy review. The Ministry of Environment committee stated in May that infrastructure export finance should be used to help governments develop long-term decarbonization strategies and that the impact of exporting coal-fired power plants on the local environment and communities must be considered.

> 'The committee "arrived at a shared understanding of the importance of making a shift to provide future assistance for 'decarbonization transition solutions' that are consistent with a realistic and steady transition to a decarbonized society, and that this thinking should not be limited only to government assistance for the business sector, but also be integrated into a long-term perspective of decarbonization for our partner countries."'[8]

Investor, NGO pressure leads to corporate banks exiting coal

The moves by the Japanese government come in response to significant shifts by Japan's three largest corporate banks away from coal. Mizuho, SMBC and MUFG - world's top three lenders to coal developers globally - have issued policies stating that they will not finance new coal-fired power plants. Mizuho Financial Group announced a policy in April which stipulated that the company "will not provide financing for the construction of new coal-fired power generation facilities" and will reduce its outstanding credit balance related to coal-fired power generation to zero by 2040. Mizuho had come under increasing pressure as Japanese NGO Kiko Network filed a shareholder resolution urging it to align its business practices with the Paris Agreement. The resolution garnered 34.5% of votes, demonstrating strong investor concern that corporations mitigate their climate impacts. Six major Nordic investors with over $500 billion in assets including Norway's biggest pension fund and life insurance company supported the resolution.[9]

On February 28, Mitsubishi decided to withdraw from the $2 billion Vinh Tanh 3 coal power project in Vietnam. Other global companies, including GE and Siemens, have suspended or exited coal projects over the last six months.

South Korea: last coal supper on the way to a Green New Deal

The Democratic Party's sweeping win in April parliamentary elections based on a strong Green New Deal platform signaled that South Korean leaders would take strong action to spur the country's transition to a low-carbon economy. The manifesto, praised by the UN Secretary-General Antonio Guterres, committed to introducing a 2050 net-zero target, a carbon tax, ending coal financing domestically and overseas, unleashing large-scale investment in renewables, and enacting a Green New Deal law. South Korea is the first country in East Asia in which the ruling party has pledged to achieve net-zero emissions by 2050. On July 14, the government unveiled a

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[7] "At Madrid climate talks, Japan's Shinjiro Koizumi confronts critics over coal," *Japan Times,* December 12, 2019.

[8] "Government of Japan should decide to stop funding exports of coal power technology in its Infrastructure System Export Strategy," NGO statement, May 26, 2020.

[9] Mizuho faces shareholder climate resolution over coal financing, *Bloomberg,* June 24, 2020.

KRW 73 trillion (US$60 billion) Green New Deal spending plan all the way to 2025, including a US$35 billion commitment to renewable energy and environmentally friendly infrastructure. But there was no specific emission reduction target, let alone a net-zero announcement, attached to this commitment to spend money. "The Green New Deal is about responding preemptively to the climate crisis, a desperate reality already confronting us. The COVID-19 pandemic has reaffirmed the urgency of responding to climate change," said President Moon as he introduced the plan.[10]

Meanwhile, the National Council on Climate and Air Quality (NCCA), an ad-hoc council led by Ban Ki-Moon, has been discussing Korea's coal phase out roadmap. In November, the Council recommended a total coal phase-out by "2045 or earlier" and consideration of a coal phase-out year of "2040 or earlier," with plans for the Korean government to set a national coal phase-out year in 2021. In addition, President Moon Jae-in announced plans to enhance Korea's NDC by the end of his administration in May 2022. The world is watching, and NGOs are pushing the South Korean president to come up with more aggressive follow-up measures.

Public overseas coal financing also came to a virtual end in late 2020. South Korean legislators introduced a bill on July 28 that would prohibit government-owned utilities and financial institutions to fund coal projects overseas, citing falling clean energy costs in recipient nations, financial and reputational risks to South Korea, and the urgent need to tackle the climate crisis. While the legislation has yet to pass, South Korean government's support for the coal industry, especially for overseas projects, came to a practical end as indicated during the October audit of state affairs. In fact, during the audit, KEPCO stated that after the Jawa 9 & 10 coal power project in Indonesia and Vung Ang 2 coal power project in Vietnam, the company and its subsidiaries had no plans for further overseas coal project and committed to either cancel or convert the planned 1,000MW Sual 2 coal power project in the Philippines and the 630MW Thabametsi coal power project in South Africa. Under legislator questioning, the Korea Trade Insurance Corporation (K-SURE) also indicated that it had no plans for additional overseas coal power financing. The Korea Development Bank (KDB) said it would no longer finance coal if the Ministry of Trade, Industry and Energy (MOTIE) and KEPCO had no further overseas coal power plans. The Ministry of Economy and Finance also indicated that future overseas coal financing would be "very difficult."

Doosan Heavy - a financial headache for the Korean government

Korea's main coal and nuclear equipment manufacturer -- Doosan Heavy (DHI) -- was on the brink of collapse already before Covid-19 hit. Over the past decade, due to a decline in orders for nuclear and coal equipment and failure to evolve with energy trends, its stock price has tumbled from about USD 65 in 2010 to around USD 3 in March 2020, and its credit rating has also declined from A in 2008 to BBB in 2020. In the past few years, the company has been halting operations, putting employees on leave, and selling off core businesses (please refer to this Korea Times article). The company has KRW 4 trillion (approx. USD 3.3 billion) in debt reaching

[10] https://renewablesnow.com/news/south-korea-commits-usd-61bn-to-green-new-deal-by-2025-706741/

maturity in 2020, while its total share value is only KRW 1.142 trillion (approx. USD 946 million) as of June 25, 2020.[11]

In late March 2020, Korea Development Bank (KDB) and Export-Import Bank of Korea (KEXIM) provided an emergency credit line of KRW 1trillion (approx. USD 800 million) to DHI, as bonds amounting approximately USD 900 million were reaching maturity in April and May. In April, the state-run banks converted KRW 600 billion in foreign currency bonds to loans,[12] and provided another KRW 800 billion in financial assistance.13 In June 2020, KDB and KEXIM provided another loan of KRW 1.2 trillion,14 bringing total policy lender support to DHI in 2020 to KRW 3.6 trillion, or approximately USD 3 billion, as of June 25, 2020.DHI has also been the main beneficiary of Korean overseas coal financing - more than half of Korean government financed coal projects are DHI related. According to the Energy Transition Forum, a nonprofit organization established in Korea, domestic and overseas new coal power projects constituted approximately 70 to 90% of the value of new projects secured between 2015 and 2018. The aforementioned credit line may have resolved Doosan Heavy's immediate liquidity crisis, but this does not resolve Doosan Heavy's problems. The company's operating profits are down 77.6% compared to 2019.

Doosan Heavy's financial trouble is a direct result of decline in orders for nuclear and coal equipment and failure to read and evolve with changing power markets over the past decade. The Institute for Energy Economics and Financial Analysis finds that Doosan Heavy's financial audit maneuvers cannot hide the fact that Doosan Heavy's strategic bet on nuclear and fossil power puts it in direct competition with Chinese and Japanese equipment providers. "The company is struggling with a structurally unprofitable business model and is not keeping pace with the investment required to develop distinctive clean technology solutions that fast-growing Asian power markets will reward," says financial analyst Ghee Peh, co-author of the report. Doosan Heavy has been aggressively pursuing new coal projects in Indonesia (Jawa 9 & 10) and Vietnam (Van Phong 1) to fill its cash flow woes, but these projects have suffered prolonged obstacles due to local opposition over environmental and health concerns, controversies around how PLN approved new coal projects. The Korean government's determination to move away from nuclear power also partially contributed to its nuclear business decline, but coal has traditionally been the main source of revenue. The government bailouts are an effort to tide the company over until its renewable energy manufacturing capacity matures. President Moon recently visited the company's wind turbine test site and expressed special thanks to Doosan Heavy for not giving up on wind power technology.

KEPCO's Dilemma

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[11] Doosan Heavy Stock Information, retrieved from Doosan Heavy website June 25, 2020
[12] "Doosan Heavy Industries & Construction to Restructure Itself," Business Korea, April 28, 2020
[13] "Doosan Heavy to get additional 800 bln won from policy lenders," Yonhap News, April 27, 2020
[14] "S.Korea's state-owned banks to provide Doosan Heavy I&C with additional support of 1.2 trln won," *Reuters, June 1, 2020*

KEPCO, South Korea's national power company, recently approved the decision to invest in the controversial Vung Ang 2 coal plant in Vietnam from which China Light and Power withdrew in late 2019, after much delay and controversy. KEPCO has come under increasing scrutiny from investors. According to IEEFA, the Dutch pension fund APG said it would divest its KEPCO shares because of the utility's continued investment in coal-fired power projects. On May 28, BlackRock, the world's largest asset manager, wrote to KEPCO's board seeking disclosure on KEPCO's interests in coal-fired plants outside South Korea. According to pre-feasibility studies conducted by the Korea Development Institute, investing in the Vung Ang 2 coal power project and the Jawa 9 and 10 projects would result in losses of US$80 million and US$7 million, respectively, for KEPCO. After significant backlash from climate activists and investors, KEPCO announced that it would not pursue further overseas coal projects after Vung Ang 2, effectively shelving planned coal power projects in the Philippines and South Africa.

KDB and KEXIM under fire

Korea Export Import Bank (KEXIM) and Korea Trade Insurance Corporation (K-SURE) have been the main backers of overseas coal projects. Together with KDB, they have provided a total of KRW 11.68 billion or approximately US$10 billion in financing for overseas coal power projects since 2008 as of January 2019. Meanwhile, the National Pension Service (NPS, US$3.0 billion), Korea Development Bank (KDB, US$2.1 billion) and Nonghyup Financial Holdings (NH, US$ 3.5 billion) have contributed the most in financing domestic coal projects. Recent exposure of the role of Korean business and government entities in expanding the global coal consumption led to Korean legislators' questioning of the Minister of Trade, Industry and Energy, heads of KDB, K-SURE, KEXIM, NPS, and NH during the 2020 National Assembly audit of the government. Such questioning, driven largely by the fact that Korea's financing of coal power bucks international trends, led to statements, as mentioned before, from KDB indicating that it would stop overseas coal financing if the Ministry of Trade, Industry and Energy and KEPCO do not pursue more overseas coal power projects and from K-SURE that it had no plans for further overseas coal financing. While KEXIM did not make a coal exit statement under questioning, the institution may have changed its position under Korea's new 2050 carbon neutrality announcement. NPS responded to legislators saying that it understands the need to exit coal finance and would expand its efforts to decarbonize its investment portfolio. Reacting to legislators' criticism that it was overlooking the financial risks of coal investments, NH Financial Group said it would steer away from coal.

KDB and KEXIM's bailout of Doosan Heavy could be based on shaky financial grounds. Whether or not KDB / KEXIM received sufficient collateral appears to be an emerging topic. DHI and the shareholders of the Doosan Group have already collateralized so much of its assets that there is not much left. This may be one of the reasons private banks did not have any appetite in increasing its exposure to DHI. According to estimates by the South Korea-based NGO Solutions for Our Climate, the collateral provided by DHI and its shareholders fall short of the credit line amount of KRW 1 T plus interest.

The global exodus out of coal

The moves in Japan and Korea are part of a broader movement across the globe to phase out support for coal both domestically and overseas. The French, Canadian, Swedish, Dutch and British ECAs have adopted unilateral policies that restrict all types of coal finance overseas. A leading number of development financial institutions are also no longer supporting coal overseas - even the US. In 2017, the UK and Canadian governments established the Powering Past Coal Alliance to advance the transition away from unabated coal power generation. The alliance has grown to include a total of 104 members, comprising 33 national governments, 28 sub-national governments, and 43 businesses or organisations.

According to the Institute for Energy Economics and Financial Analysis, over 120 globally significant banks and insurers have announced their divestment from coal mining and/or coal-fired power plants. Further, a growing number of Japanese coal developers and trading companies have announced that they will no longer develop or support new coal-fired power plants. This includes Marubeni, Mitsubishi Corp., Sumitomo Corp., Mitsui & Co., and Itochu Corp. On February 26, the president of Chugoku Electric Power Company, which is involved with the Vung Ang 2 power plant in Vietnam, announced that the company will withdraw from the new development of coal-fired power plants and increase the introduction of renewable energy like wind and solar. President Mareshige Shimizu said, “It’s very difficult, but I think it’s my responsibility as an electric power company.”