Centre *for* Environmental Rights
Advancing Environmental Rights in South Africa

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11 April 2019

Dear Sirs

RELEVANT INFORMATION IN RELATION TO ABSA GROUP LTD'S ROLE IN FINANCING PROPOSED NEW COAL-FIRED POWER PLANTS

1. We write to you as the Centre for Environmental Rights[1] (CER), and on behalf of groundWork,[2] in relation to your role as possible financier for the proposed coal baseload independent power producers (IPPs) – Thabametsi and Khanyisa ("the coal IPPs").

2. We refer to the correspondence exchanged with Absa Group Limited ("Absa") (previously Barclays Africa Group Limited) in relation to Absa's proposed funding for the coal IPPs in particular, we refer to our latest letter of September 2018 (attached) to the board and your response of 3 October 2018, which stated, *inter alia*, that Absa's "*risk assessment processes are still underway and when concluded will inform Absa's position in respect of the funding of the Projects*."

3. At present, Nedbank has confirmed that it will not finance the coal IPPs,[3] while there are unconfirmed reports that Standard Bank and First Rand Bank will also refrain from financing the coal IPPs.[4]

[1] See https://cer.org.za/.
[2] See https://www.groundwork.org.za. groundWork, along with the Centre for Environmental Rights and Earthlife Africa form part of the Life After Coal Campaign, a campaign which aims to discourage the development of new coal-fired power stations and mines; reduce emissions from existing coal infrastructure and encourage a coal phase-out; and enable a just transition to sustainable energy systems for the people. See https://lifeaftercoal.org.za/.
[3] See https://www.nedbank.co.za/content/dam/nedbank/site-assets/AboutUs/Information%20Hub/Integrated%20Report/2018/2018%20Sustainable%20Development%20Review.pdf.
[4] See https://www.moneyweb.co.za/moneyweb-opinion/soapbox/nedbank-withdraws-funding-for-new-coal-ipps/.

4. We note that we have, to date, seen no indication from Absa that it does **not** intend to finance the coal IPPs, nor have we seen any commitments from Absa to refuse financing for coal-fired power generation or coal mine projects.

5. We write to point out: that major financial institutions, locally and internationally, are exiting coal, as they themselves have already recognised the risks of continuing to fund coal, both reputational and otherwise; that continuing to finance coal comes with enormous risks, financially and for the country; and that any attempt to rely on alleged "clean coal" technologies is by no means a solution or a justification to continue financing and subsidising the coal sector.

6. In this regard, we bring your attention to the following reports, which are of relevance as you consider Absa's commitments to financing the coal IPPs, and any other investments in coal-fired power stations or coal mines:

   6.1. a report by the Institute for Energy, Economics and Financial Analysis (IEEFA) titled "Over 100 Global Financial Institutions Are Exiting Coal, With More to Come: Every Two Weeks a Bank, Insurer or Lender Announces New Restrictions on Coal" ("the IEEFA report");[5]

   6.2. a report by the Climate Policy Initiative titled "Understanding the impact of a low carbon transition on South Africa" ("the CPI report"); and

   6.3. a report titled "The Myth of Clean Coal: Why Coal Can Only Ever Be Dirty" ("the Myth of Clean Coal report").[6]

Financial institutions are rapidly exiting coal

7. The IEEFA report (attached) highlights the rapidly-increasing trend of financial institutions abandoning the funding of coal, and confirms that coal projects are becoming increasingly risky as they become uninsurable and unattractive to financiers. It states, among other things, that:

   7.1. "*over 100 globally significant financial institutions have divested from thermal coal, including 40% of the top 40 global banks*[7] *and 20 globally significant insurers*";

   7.2. "*By the start of 2019 over 30 global banks had ceased project financing for thermal coal mines and/or coal-fired power plants worldwide, without geographic loopholes*";

   7.3. "*To-date, 34 globally significant private banks have thermal coal lending restriction in place*";[8]

   7.4. "*The financial institutions leaving coal behind are no ethically minded minnows – they are some of the largest across the globe. As extreme weather increases in frequency and extremity the list will continue to grow, while the lending exclusions and divestments will increasingly be delivered upon*";[9]

   7.5. "*As this evaluation is being undertaken, it is clear to IEEFA that* ***global investor and debt capital is fleeing coal at an increasing rate, and it is foreseeable that thermal coal and power plants become uninsurable in the medium term****. As a leading example, private finance in India for a new power plant is no longer available. The rate of change globally looks very much like dominos falling, raising the question of who will make the next move*"[10] (emphasis added); and

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[5] http://ieefa.org/wp-content/uploads/2019/02/IEEFA-Report_100-and-counting_Coal-Exit_Feb-2019.pdf.
[6] https://lifeaftercoal.org.za/media/new-report-why-there-is-no-such-thing-as-clean-coal.
[7] https://www.relbanks.com/worlds-top-banks/market-cap.
[8] P23.
[9] P2.
[10] P5.

7.6. "*Already an emerging theme in 2019 is coal companies' inability to access capital markets for expansions, or mergers and acquisitions*."[11]

8. The report lists the leading global banks which are excluding both thermal coal mining and coal-fired power plants.[12] While some of these banks' policies could certainly be strengthened and improved, this nevertheless demonstrates that Absa is currently lagging behind other major finance institutions – by failing to have any policy or restrictions in place at all.

9. We note the following statement on Absa's website, under "Absa powers up the African continent", stating, "*Although Absa are mandated by clients on M&A (merger and acquisitions) transactions for coal power projects, it is apparent that finding suitable investors for coal power projects is becoming increasingly more difficult. Currently, 92% of South Africa's energy is derived from coal. Coal-fired power has been fingered as one of the chief villains of global warming, and, as a result, the pool of potential funders of coal-fired power projects is also shrinking, the world over*."[13]

10. This mirrors the trend referred to above and highlighted in the IEEFA report. In the absence of a firm position against financing coal projects, Absa could become the only bank willing to fund the dirty and risky projects that other banks refuse to finance. This will have knock-on negative impacts for Absa's reputation.

11. We note from Absa's "Financial results for the reporting period ended 31 December 2018" a section titled "Environmental risks impact on the Group's clients, organisation and operating environment",[14] which lists the following as risks:

    11.1. "*adverse weather conditions resulting in extreme environmental events … impacting community sustainability with credit and insurance risk implications*";

    11.2. "*increased global stakeholder focus on sustainability of the investments and customers associated with corporates*"; and

    11.3. "*scarcity of data available to accurately model the implications of climate change*".[15]

12. The listed responses are to:

    12.1. "*continuously assess the suitability and strategic alignment of products and customer value propositions against changing environmental factors and the impact of the group's risk profile*"; and

    12.2. "*develop and enhance preventative and reactive credit and insurance risk models*".[16]

13. We reiterate that Absa should give serious consideration to its own role, exposure to risks, and reputation, in funding coal projects, particularly now in light of the findings of the IEEFA report, and the CPI report discussed below.

The financial risks of continuing to invest in coal

14. The CPI report (a copy of the executive summary is attached), contains the following findings:

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[11] P5.
[12] See p23 to 26.
[13] https://www.absa.co.za/corporate-and-investment-banking/sector-expertise/power-utilities-and-infrastructure/.
[14] https://www.absa.africa/content/dam/africa/absaafrica/pdf/results/annual/results-booklet.pdf.
[15] https://www.absa.africa/content/dam/africa/absaafrica/pdf/results/annual/results-booklet.pdf.
[16] https://www.absa.africa/content/dam/africa/absaafrica/pdf/results/annual/results-booklet.pdf.

14.1. "*South Africa faces transition risk of more than $120 billion in present value terms between 2013 and 2035. The analysis shows that these risks will accumulate slowly in the coming years before accelerating in the mid-2020s*";[17]

14.2. "*The current South African system of incentives for new capital investment favour some existing industries that are exposed to transition risk, rather than new sectors that may create more sustainable sources of jobs and economic growth. Currently planned investment decisions could add more than $25 billion to the country's transition risk*" - among the investments listed are the coal IPPs;[18] and

14.3. "*The South African electricity sector is currently waiting for a final decision in respect of $2.8 billion of potential investment in 1GW new coal-fired power plant capacity to be built by independent consortia. As of publication, the capacity remains in government's future plans despite the apparent withdrawal from the deals of private sector funders Nedbank and Standard Bank. **Funders may be hesitating because of the medium term risk that the South African government might intervene to force the early shut-down of the stations as part of a policy to accelerate carbon emission reductions. Concern over costs could become cause for an early shutdown as the two assets are already 80% more expensive than new generation (such as wind and solar) from alternative sources, such as wind solar. The disparity is only likely to grow.** A recent University of Cape Town Energy Research Centre paper estimated that the decision to invest in them, rather than a least-cost-plan, could cost the country R20 billion (or just over $1 billion) over 2015-2052. However, equity investors (such as Marubeni, KEPCO and ACWA Power) may decide to proceed if they can convince lenders that long-term take-or-pay contracts with Eskom, government guarantees, and other contractual provisions are sufficient to offset the political risk. Unlike the rail investment, the profitability of the Thabametsi and Khanyisa IPPs would not directly be impacted by the decline of the export coal market. However, the solvency of their coal suppliers might be, depending on their current exposure to the export market and the investments that they make in new assets… **If the coal supplier to one of these projects went bankrupt or reneged on the contract, the projects would have to source alternative coal, which would most likely come at an increased cost, reducing the return of the equity investors. Potential lenders who factor in transition risk at the outset might seek contractual protection against this risk via collateral or letters of credit or risk a default further down the line. Beyond the political risk that IPP investors will face and transition risks related to their coal supply contracts, potential lenders to the IPPs with exposure to Eskom may consider not lending to the IPPs given the negative indirect impact that it would have on Eskom. Avoiding the IPPs would result in lower costs to the consumer and hence lower Eskom bad debts as well as lower coal procurement costs for the Eskom fleet (totaling $1.1 billion)***" (emphasis added).[19]

15. One of the recommendations made in the CPI report is to "*avoid or delay new investments that could add to South African climate transition risk exposure, shift capital allocation to sectors more resilient to transition risk or benefiting from the transition*", with "key actions" being to "*reconsider new investments that could add another $25.8 billion to transition. Projects for reconsideration include planned [coal] IPPs, coal export rail and port infrastructure, and a new oil refinery*". We recommend that Absa give serious consideration to this recommendation.

The myth of "clean coal"

16. In relation to the Myth of Clean Coal report (attached), we have recently noted public statements by government, including the Minister of Energy,[20] acknowledging the need to reduce greenhouse gas (GHG) emissions and

[17] Executive Summary, CPI report.

[18] See Table ES-2 of the Executive Summary.

[19] P59, full CPI report.

[20] See for example Keynote Address by Minister of Energy Honourable Jeff Radebe, MP At Africa Energy Indaba 2019 Sandton International Convention Centre, 19 February 2019 at https://www.gov.za/speeches/minister-jeff-radebe-africa-energy-indaba-2019-19-feb-2019-0000 and Media Conference Statement by Minister Jeff Radebe, Minister of Energy re Independent Power

transition to renewable energy sources, but arguing that South Africa should look to procuring “cleaner” coal-fired technologies in the future; arguing that coal-fired generation should not be abandoned, because, for example, coal is abundant in South Africa.[21]

17. We also note the statement on Absa’s website under “Absa powers up the African continent”, that “*Southern Africa has an abundance of cheap coal as feedstock for power.* ***Adopting supercritical or ultra-supercritical combustion technologies is likely to be the new standard for ‘cleaner coal’ power plants. However, this does come at a cost, which filters through to the end user via the tariff***” (emphasis added).[22]

18. We point out that the notion of “clean coal” is a misnomer and a myth,[23] promoted by proponents with vested commercial interests in the survival of the coal industry, both in South Africa and internationally. “Clean coal” is misleadingly put forward as the lifeline that will allow governments and industry to continue to depend on coal as a “sustainable” energy generation option; without any qualification or explanation of what is meant by the reference to “clean”, and overlooking the severe environmental, health, and climate change impacts associated with the entire coal cycle. There is no such thing as clean coal in any jurisdiction. We record upfront that any reference to “clean coal” is highly misleading.

19. The attached Myth of Clean Coal report presents an overview of the coal cycle (mining, production, supply, and waste disposal) to demonstrate that “clean coal” is, in fact, impossible. **There are no solutions to neutralise all - or even most - of the dire environmental, health, and climate change impacts caused by coal, including the mining, beneficiation, and combustion of coal**. This, in circumstances where significantly cleaner and cheaper alternative energy sources - such as wind and solar power - are available in such abundance in our country.

20. In demonstrating that “clean coal” is a myth, the attached report provides an explanation of what makes coal ‘dirty’; why the technologies promoted by “clean coal” proponents can never be a solution; and distinguishes between the types of emission reduction technologies that are currently available to comply with South Africa’s existing air pollution laws. Many so-called “clean coal” technologies only exacerbate such external impacts and, i**f viable at all, result in a substantial increase in capital and operating costs, compared to readily-available, much more flexible and much less harmful wind and solar power technologies**.

21. Certainly, any decisions to fund coal projects that propose to utilise “clean coal” technology, would still result in coal-fired power station projects with unacceptable impacts for human health and wellbeing, the environment (including water and land) and the climate, and would still contradict Absa’s position as an Equator Principles Financial Institution, which, in terms of its lending practices, claims to provide “*project financing to project sponsors undertaking environmentally and socially responsible developments*”.[24]

Conclusion

22. Already in our 4 May 2017 letter to Absa, we highlighted the negative impacts related to building more coal-fired power plants in South Africa.

Producers, 24 February 2019, at http://www.energy.gov.za/files/media/pr/2019/MediaConference-Statement-by-Minister-on-RE-IPP-24February2019.pdf.

[21] Media Conference Statement by Minister Jeff Radebe, Minister of Energy re Independent Power Producers, 24 February 2019, http://www.energy.gov.za/files/media/pr/2019/MediaConference-Statement-by-Minister-on-RE-IPP-24February2019.pdf.

[22] See https://www.absa.co.za/corporate-and-investment-banking/sector-expertise/power-utilities-and-infrastructure/.

[23] See also https://www.businesslive.co.za/bd/opinion/2019-03-06-no-such-thing-as-clean-coal-mr-radebe/.

[24] See Integrated Report, 2017, p43 at https://www.absa.africa/content/dam/africa/absaafrica/pdf/results/annual/2017-integrated-report.pdf.

23. Communities living in the vicinity of coal-fired power stations and related coal mines, suffer severe impacts to their health and wellbeing – from air and water pollution - as a result.[25] These impacts also come at a high economic cost for the communities.[26] **In short, communities are not placed in any better economic position and suffer the negative health and environmental impacts of coal-fired power stations and mining**. These impacts are suffered even long after the mining and power station operations cease.

24. Due to the irrefutable environmental, health, and climate change impacts, and the rapidly-increasing costs associated with the use of fossil fuels, coal-fired power generation is not sustainable. The phasing-out of coal is the only option, and is occurring on a global scale and gaining momentum.[27] Already banks, such as the World Bank, are acknowledging the need to support a just transition by, *inter alia*, helping governments prepare for and manage coal mine closures and the associated impacts on communities and people's livelihoods.[28]

25. We urge Absa to properly consider and address these risks by implementing robust response measures, starting with a clear policy to exclude financing for coal mining and power stations, and to align its decisions with the need for a rapid and just transition away from fossil fuels.

26. Please let us know if you require any further information. We are available to discuss any of the above with you further.

Yours faithfully
CENTRE FOR ENVIRONMENTAL RIGHTS

per:

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[25] See Holland, "Health impacts of coal fired power plants in South Africa" at https://lifeaftercoal.org.za/wp-content/uploads/2017/04/Annexure-A4.pdf; "Lower Olifants Community Health: Risks and Opportunities Project at https://cer.org.za/wp-content/uploads/2017/09/Annexure-J-Final_Report_Lower_Olifants_31March2014_FINAL.pdf; and "The Destruction of the Highveld" at https://lifeaftercoal.org.za/virtual-library/publications/the-destruction-of-the-highveld-groundwork-report-2017.

[26] A report by Dr Mike Holland assesses the annual cost of the air emissions from Eskom's power stations alone to be 2.4 billion US dollars. See https://lifeaftercoal.org.za/wp-content/uploads/2017/04/Annexure-A4.pdf, table 3-2 on p15.

[27] For example, see https://coaltransitions.org/; https://endcoal.org/wp-content/uploads/2018/03/BoomAndBust_2018_r6.pdf; and http://geopoliticsofrenewables.org/report.

[28] See https://www.worldbank.org/en/topic/extractiveindustries/publication/managing-coal-mine-closure.