

April 24, 2020

Mr. Shinzo Abe, Prime Minister of Japan
Mr. Toshiimitsu Motegi, Minister of Foreign Affairs
Mr. Taro Aso, Minister of Finance
Mr. Hiroshi Kajiyama, Minister of Economy, Trade and Industry
Mr. Shinjiro Koizumi, Minister of the Environment

Joint letter on principles for the revision of Japan's infrastructure system export strategy and public assistance for coal-fired power projects overseas

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Prior to developing principles for the next version of Infrastructure System Export Strategy in June 2020, the Government of Japan is expected to reach a conclusion on the revision of four conditions¹ relating to Japanese government assistance for coal-fired power plants overseas, by discussions among the relevant ministries and agencies. At the Ministry of the Environment, the Expert Committee to Consider the Facts relating to public assistance for Coal-Fired Power Projects has already been established under the Minister, and discussions are underway. Media have reported that other ministries and agencies will also be discussing these matters. Our five civil society organizations have been working for years to address issues relating to coal-fired power projects overseas, and in the context of these current discussions, we submit this joint letter containing five recommendations for Prime Minister Shinzo Abe and the relevant Ministers.

Recommendation 1:

Adopt a policy to stop providing public assistance for new coal-fired power projects overseas, in order to be consistent with Japan's Long-term Strategy under the Paris Agreement.

In Japan's Long-term Strategy under the Paris Agreement (approved by Cabinet in June 2019), the Government of Japan states "the Government will promote the

¹ Four conditions in Japan's Strategic Energy Plan (approved by the Cabinet July 2018), which are stated as conditions required for the government to provide assistance for exports of coal-fired power plants: (1) the "countries have no choice but to select coal as a key source of energy from the viewpoints of energy security and economic efficiency"; (2) the "countries request for Japan's technology for high efficiency coal thermal power generation"; (3) power-generation facilities are introduced "in a manner consistent with, ... countries' energy policies and countermeasures against global warming, also in light of the rules of the OECD"; and (4) the supported power-generation facilities are "equivalent to at least the world's most advanced USC power plants, in principle."

development and investment of energy infrastructure abroad in order to contribute to the global reduction of CO₂ emissions consistent with the long-term goals stipulated in the Paris Agreement.” To achieve the Paris Agreement’s long-term goals, it is necessary even for developing countries to completely stop the operation of coal-fired power plants by 2040.² It is obvious that the building of new coal-fired power plants, even with high efficiency next-generation technology, is inconsistent with the Paris goals. The Government should be leading the transition to end coal financing, but actually, it is the three Japanese mega banks that took the initiative to develop policies not to provide financing for new coal-fired power plants. The Government should no longer be a drag on the private sector’s efforts. It should make an explicit decision to stop the use of public assistance for coal projects.

Recommendation 2:

Do not support Vung Ang 2 (Vietnam), Indramayu (Indonesia) and Matarbari Phase 2 (Bangladesh) coal-fired power projects, which are expected to be financed by Japan.

It is our understanding that three projects are likely to be the last coal-fired power projects overseas to receive public financing from Japan: Vung Ang 2 in Vietnam (the Japan Bank for International Cooperation (JBIC) and the Nippon Export and Investment Insurance (NEXI) are considering financing), plus Indramayu in Indonesia, and Matarbari Phase 2 in Bangladesh (it is anticipated the Japan International Cooperation Agency (JICA) will receive requests for support). These three projects are, however, inconsistent with the Paris Agreement’s long-term goals, and moreover, already face serious problems, including an excess supply of electricity, lack of economic rationality, and insufficient environmental and social consideration (described below). If JBIC and NEXI decide to support Vung Ang 2 even while the Government’s above-mentioned discussions about revising the four conditions are still under way, the very significance of those discussions will be diminished. Similarly, regarding the two projects involving JICA, the above-mentioned discussions will be pointless if existing bilateral agreements are used as the justification to make exceptions or preferential treatment. Government should decide not to provide public funds for these three projects if it really wishes to demonstrate to the Japanese public and the international community that it has made a credible transition toward a decarbonized society.

- **Vung Ang 2 Coal-Fired Power Plant Project (Vietnam):** Coal-fired power plants and steel mills are already operating near the planned project site for this project, which JBIC is currently considering. The area is already suffering from issues like air pollution and a steadily growing problem with coal ash. Also, according to analysis by the UK think tank CarbonTracker,³ the construction costs of solar

² Climate Analytics "Global and regional coal phase-out requirements of the Paris Agreement: Insights from the IPCC Special Report on 1.5°C" (September 23, 2019)
<https://climateanalytics.org/publications/2019/coal-phase-out-insights-from-the-ipcc-special-report-on-15c-and-global-trends-since-2015/>

³ https://www.carbontracker.org/reports/here_comes_the_sun/

power plants will be lower by 2022 than the operating costs of existing coal-fired power plants in Vietnam. Indeed, many renewable energy projects, including solar, are progressing near the planned site for Vung Ang 2.⁴

● **Indramayu Coal-Fired Power Project (Indonesia):** JICA has provided Engineering Service (E/S) loans for this project and is reportedly waiting for an official loan request from Indonesia for the main construction work. However, several violations of JICA's Guidelines for Environmental and Social Considerations have been identified, including the lack of social acceptability (local communities are strongly opposed, due to concerns about loss of livelihood and health impacts) and flaws in the environmental assessments (including lack of public participation and information disclosure). In addition, farmers who have raised their voices against the project have been unfairly arrested, and detained on false charges. The failure to ensure basic human rights is a serious problem and conflicts with the "Principles for securing the appropriateness of development cooperation" under Japan's Development Cooperation Charter.⁵ Furthermore, the need for this project is questionable, as the Bali/Java power grid where this project will be implemented currently has a surplus supply of electricity, with the reserve margin at about 30%, and this is predicted to range from 26.4% to 44.9% over the next ten years.⁶

● **Matarbari Coal-Fired Power Project (Phase 2) (Bangladesh):** It is anticipated that JICA will provide assistance for the Matarbari Phase 2 project. It should be noted that Phase 1 has not been meeting the requirements of JICA's Guidelines for Environmental and Social Considerations, due to delays in compensating and providing alternative housing for the affected residents, etc. The project is also causing many problems, with significant adverse impacts on the livelihoods of local communities, including increased severity of flooding due to damage to irrigation water channels and water gates, damage to community roads, an increase in traffic accidents, and sedimentation of rivers. According to a report entitled "Revisiting Power System Master Plan (PSMP) 2016" (published November 2018) by the Ministry of Power, Energy and Mineral Resources, the maximum electricity reserve margin in Bangladesh is anticipated to be 69%, and the actual reserve margin is expected to consistently exceed targets until 2041. One could therefore conclude that the real need to build a new large-scale coal-fired power plant is low for the foreseeable future.⁷

Recommendation 3:

Ensure transparency and accountability in the process of establishing the principles for the Government's next Infrastructure System Export Strategy

Meeting documents and summaries from the Ministry of Environment's Expert Committee to Consider the Facts relating to public assistance for Coal-Fired Power

⁴ http://www.mekongwatch.org/PDF/V_HaTinh_RE_FS.pdf

⁵ <https://www.foejapan.org/aid/jbic02/indramayu/pdf/20190408.pdf>

⁶ https://www.foejapan.org/aid/jbic02/indramayu/pdf/201912_indonesia.pdf

⁷ See *5 reasons why Government of Japan should not support Matarbari coal-fired power project (Phase 2)*: <https://sekitan.jp/jbic/en/2020/04/17/3985>

Projects are, in principle, being disclosed. However, processes relating to discussions at other ministries and agencies have no transparency, and the even occurrence of such meetings is not being disclosed. In the processes to establish the next Infrastructure System Export Strategy, all meeting materials and minutes of related meetings should be disclosed, including the names of participants.

Recommendation 4:

Establish a highly transparent process to review crucial factors (necessity, appropriateness, economic justification, and environmental and social considerations, etc.) when considering the provision of public assistance for any large-scale infrastructure project overseas. Such a process should occur prior to the Government indicating any approval for public financial institutions to commence a review of the project.

As stated above, it is no longer appropriate for the Government to continue providing public assistance for coal-fired power generation projects. In fact, in not only coal-related but also many other kinds of large-scale infrastructure projects that have been supported by Japan, crucial factors have not received adequate consideration, including necessity, appropriateness, economic justification, and environmental and social considerations. When the provision of public assistance is being considered for a project, highly transparent processes should be used, with an independent committee established to review these crucial factors before the Government indicates any approval for public financial institutions to commence consideration of the project.

We note that the Development Project Accountability Committee under the Ministry of Foreign Affairs functions similar to the above-proposed committee, but since any review there is being conducted prior to preparatory surveys by JICA, information available at that stage is insufficient for proper deliberation. In the case of an ODA (yen) loan project, the above-proposed committee should conduct an open review (not behind closed doors) prior to any meeting of the three relevant ministries to consider any ODA (yen) loan for the main construction stage of the project.

Recommendation 5:

Establish JBIC and NEXI Advisory Committees on Environmental and Social Considerations

The Japan International Cooperation Agency (JICA) has an Advisory Committee for Environmental and Social Considerations, composed of external experts and NGOs, and it contributes to the transparency and accountability of JICA's environmental and social considerations. In contrast, JBIC and NEXI have no such committee, and their transparency and accountability are significantly reduced as a result. We strongly urge JBIC and NEXI to establish similar committees to have at least the same level of transparency as JICA, and to ensure that JBIC and NEXI can receive such a committee's advice prior to commencing any environmental review of a project.

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