



**Reclaim Finance response to GFANZ Consultation Paper:
“Financing the Managed Phase-Out of Coal-Fired Power Plants in Asia Pacific”**

3 August, 2023

Part 1: APAC Considerations

GFANZ Question:

- 1. Are the most relevant considerations and contexts when considering energy transition and coal phaseout for APAC countries captured? Is anything material missing?*

Reclaim Finance Response:

The consultation report (CR) notes (p.44) the importance of including civil society input in coal managed phase-outs (MPOs). Part 1, however, fails to note the severe difficulties that civil society organizations (CSOs) face in some APAC countries. This is in particular the case in Vietnam where a number of environmentalists have been arrested in recent years, including coal campaigner Hoang Thi Minh Hong in June 2023.

- 2. Given existing policy frameworks in APAC, what additional frameworks or enabling mechanisms are needed to incentivize and scale early phaseout transactions? How can the final GFANZ APAC Coal MPO Guidance best support these needs?*

Frameworks are required to ensure the unfettered participation of CSOs in MPO processes.

- 3. Is there a role for regulators / official sector authorities when developing MPO guidance? Where might regulators agree or disagree with the proposed guidance?*

Governments should adopt coal phase-out policies with clear legally binding timelines. These should require automatic closures of old coal plants that are already close to or exceeding the term of their PPA. Otherwise, experience shows that these old plants will ask for compensation for what they will claim as "early" retirement.

Part 2: Recommendations for financial institutions

- 4. Achieving climate goals require both a ‘high bar’ to mitigate leakage and moral hazard risks, and measures to support urgent action. To avoid precluding MPOs based on current country-level policy:*

What is the best way to balance the realities of where APAC is today with more stringent policies that are likely in the future? How can we encourage financial institutions to take action on MPO today while government-level commitments are still evolving?

Financial institutions (FIs) participating in MPOs must tighten their coal policies so as to 1) end financial support for all companies building or planning new coal mines, power plants or other infrastructure, or planning investments that extend the lifetimes of these installations; and 2) phase-out all forms of financial support for coal companies without credible MPOs that include just transition frameworks (this phase out should be aligned with a 1.5°C low/no overshoot scenario with realistic assumptions on the use of negative emissions, such as the NZE in the WEO 2022 which requires a coal power phase out by 2030 in the OECD and 2040 worldwide).

FIs have continued to support the coal sector over the last few decades despite knowing that this industry is the single largest contributor to the climate crisis. Institutional investors hold over US\$1.2T of coal industry stocks and bonds and commercial banks and insurers continue to provide capital and essential financial services to the industry. Their historical and current responsibility, and their deep relationships with coal industry actors mean that FIs are in a unique position to engage with coal industry clients and push for credible phase out plans and real economy emission reductions.

5. While this report is focused on coal phaseout plans, is it useful to capture the potential for emissions reduction from retrofits ahead of retirement? How might this be integrated into the guidance?

Given the limited availability of funds for MPOs, these should be applied to shutting down plants, and should not be diverted in retrofits that aim to keep plants open longer. In most cases the oldest and least efficient plants, and especially those with lifetimes likely to extend past 2030, should be prioritized for closure. In general the newest, most efficient plants should be closed last. Retrofitting old plants would therefore be likely to just keep plants that should be shut down quickly operating for longer (and potentially after the 2040 date at which the IEA shows that all coal power plants should close) in order to repay the costs of retrofits.

6. Alongside approaches to evaluate expected emissions reduction from a coal phaseout plan, is there value in simpler guardrails relating to the maximum operating life of a CFPP (both in total and from now)? What analysis could the guidance draw on to support use of such guardrails?

As is recognized in the CR, the IEA's net zero scenario shows that all coal plants need to be shut down by 2040. This date should be taken as the last operational date for all CFPPs.

In addition to ruling out investments in retrofits, MPOs should also exclude support for other measures which are likely to lead to continued high emissions, in particular:

- Cofiring coal with biomass (as this does not reduce carbon emissions, is likely to extend the life of coal plants, and can lead to deforestation and biodiversity loss);
- Cofiring coal with green hydrogen or ammonia (this is extremely energy intensive, diverts these green fuels from facilitating decarbonization in hard-to-abate sectors, and could perversely

extend the life of coal power plants and delay the transition to a system based on sustainable renewables);

- Installing CCS equipment. This is extremely capital-intensive, therefore diverting MPO resources from other needs, has failed to work effectively in the few cases where it has been tried, and is energy intensive.

7. *In relation to assessing socio-economic considerations in a coal phaseout plan, are there additional areas the Final Report should aim to cover or guidance / references financial institutions could draw on?*

The Final Report should place additional emphasis on the centrality of just transition considerations in coal MPOs, including mechanisms for guaranteed and meaningful participation by civil society, including trade unions and local communities. The Final Report should reference the relevant experience from the EU Just Transition Mechanism aimed particularly at assisting coal mining regions in Europe. For more information see <https://bankwatch.org/project/just-transition>.

8. *Does the three-step process capture the right stages and considerations for financing for a coal phaseout plan from a financial institution's perspective?*

The CR is correct to note the importance of a “no new coal” commitment and a coal phase-out date aligned with the IEA net-zero scenario for any jurisdiction where an FI is to get involved in an MPO. The CR should update its references to the IEA net-zero scenario to cite the IEA’s updated net-zero scenario published in the WEO 2022. MPOs should be aligned with a 1.5°C scenario with no/low overshoot and limited and realistic dependence on negative-emissions technologies. The WEO 2022 NZE is such a scenario.

Step 1 of the process must explicitly ensure that governments are committed to transparency and full participation of civil society in MPO planning and implementation.

As in other parts of the CR, Part 2 too often uses weak terms like “may include” or “may be appropriate” when describing essential elements of MPOs such as utilities having no new coal commitments, science-based decarbonization targets, and transition plans. Other examples where “may” should be replaced with “must” include references to demonstrating that a MPO is actually bringing forward the phase out date of a CFPP (p.36), the need to mitigate perverse incentives to continue developing coal plants (p.35), and the need to include conditions and covenants to address the issues of leakage and moral hazard (e.g. in relation to developing new CFPPs or not replacing lost coal power with renewables (p.39)).

9. *Do the ten recommendations cover the most important considerations for determining whether to participate in the financing of an MPO project? What other areas should a coal phaseout plan include to support assessment of the plan’s:*

a) *Climate impact*

Key considerations for ensuring climate impact include:

- mechanisms to ensure that coal generation is replaced with sustainable renewables and not with other carbon-intensive generating sources such as natural gas, biomass or ammonia.
- Guarantees that MPOs do not result in the sale of tradeable carbon credits which can be used by buyers to delay their own decarbonization measures.
- The use of conservative estimates of potential remaining life of CFPPs in the absence of MPO programs to ensure that funding is not spent on closing plants that are already likely on the verge of being closed.

b) Financial viability

- The CR barely mentions the huge amounts of money with APAC (and other) countries spend on fossil fuel subsidies, and which could provide an important source of revenue for MPOs. Indonesia's fossil fuel subsidies in 2022 reached a record US\$37 billion, significantly more than the Indonesian Ministry of Finance's estimate of annual investments needed to transform the energy sector (Suharsono and Maulidia 2023)
- Where entities with CFPPs are seeking to refinance debt, FIs can leverage their role and make access to lower costs of capital conditional on credible MPO plans and early phaseout.
- Calculations of the health and other benefits of reducing air pollution be included in economic evaluations of CFPP phase-outs.

c) Socio-economic considerations

- All MPOs must include just transition elements. These must be agreed with full participation of civil society, including unions, local governments, NGOs and communities. MPO processes must adhere to rights-based frameworks such as the UN Guiding Principles on Human Rights, ILO Conventions, and the UN Declaration on the Rights of Indigenous Peoples.

d) Accountability

- Transparency from governments, international donors and FIs is key to ensure accountability, as is the full and free participation of civil society. Measures must be put in place to guarantee that community members and CSOs must be protected from intimidation and state repression.

10. Does the guidance, when taken together, strike the right balance between facilitating early transactions that could help accelerate peak coal emissions in APAC, and ensuring that each transaction has sufficiently positive impact?

11. This report refers to additional guidance, benchmarks and thresholds that could inform assessments on aspects such as the credibility and impact of coal phaseout plans. Is there additional existing guidance that could be provided? What are the merits/issues of the different options set out?

The CR refers to the IEA WEO 2021 (See Box 13). It should refer to the 2022 version of the WEO.

The RMI guidance referred to offers an unrealistic assessment of the viability of carbon credits as a source of income for MPOs (see below).

12. What are the relative roles for private sector, policymakers and standard setters to develop more granular guidelines (e.g., thresholds and conditions) on financing MPOs at this time? Would regulatory standards for MPO help incentivize FIs participation in transitions?

Part 3: Financing mechanisms

13. Are there other ways financing mechanisms for a coal phaseout plan can lower the cost of capital? Which elements are likely to be most impactful at reducing risk / crowding in private finance?

14. What are the most important alternative revenue streams for APAC coal phaseout plans? What other alternative revenue streams are possible from coal closure? What real examples of these provide the most instructive case studies?

An important potential revenue stream for MPOs are the massive funds which are currently spent on fossil fuel subsidies.

The paper is misguided on its bullishness on the potential of carbon credits for providing a revenue stream for MPOs. The positive statements on carbon credits should be removed and the Final Report should note that:

- a) Raising funds from tradeable carbon credits would reduce and potentially negate the climate benefits of MPOs. The point of tradeable offsets is that they can be bought by polluters to enable them to delay action on cutting their own emissions. Offsets are not designed to cut emissions, they simply move the location of emissions. In reality this is an idealistic best-case scenario for offsets – in the real world offsets increase emissions as most are junk due to false assessments of additionality, baselines and leakage.
- b) Dependence on carbon credits would expose MPOs to reputational risks due to the repeated scandals that plague the offsets industry. After around a quarter century of efforts to provide “integrity” to the industry it continues to be plagued by scandals regarding non-additionality, flawed baselines, perverse incentives, leakage and other problems which are inherent to the concept of offsetting. Because the problems of the offsets industry are inherent to its conceptual structure, and not just due to a few “bad actors”, there is no credible reason to believe that offset scandals will not continue. One example is the verification company Verra which is mentioned in the CR as being used to ensure the integrity of carbon credits, but which has been the subject of investigations revealing that many of their credits are based on likely gross exaggerations of climate benefits. Trying to sell offsets from MPOs would very likely lead to false claims of carbon benefits for example by exaggerating the likely lifetime and capacity factors of coal plants in the absence of MPOs.

- c) Past experience indicates that attempting to raise funds from carbon offsets is likely to take up significant time and financial resources, including major expenditures on consultants, but is unlikely to generate significant amounts of revenue. Carbon credits have repeatedly been discussed over the past two decades and more as a major source of revenue for climate mitigation and adaptation, especially in developing countries. Yet despite large amounts of time and resources from governments, development agencies and NGOs going to “build capacity”, “provide good governance” and “build credibility” for offset markets they have never provided substantial funding for developing countries.

The Final Report should refer to the extensive literature showing the failures and corruption of the offsets market. Examples include: International Rivers, [Failed Mechanism: Hundreds of Hydros Expose Serious Flaws in the CDM](#), December 2007; B. Haya, [Measuring Emissions Against an Alternative Future: Fundamental Flaws in the Structure of the Kyoto Protocol’s Clean Development Mechanism](#), UC Berkeley School of Public Policy, December 2009; New York Times, [A Carbon Trading System Draws Environmental Skeptics](#), 12 October 2010; Öko-Institut, [How additional is the Clean Development Mechanism](#), March 2016; Financial Times, [Carbon offset gold rush is distracting us from climate change](#), 22 November 2019; West et al., [Overstated carbon emission reductions from voluntary REDD+ projects in the Brazilian Amazon](#), PNAS, 29 September 2020; Bloomberg, [How to Sell ‘Carbon Neutral’ Fossil Fuel that Doesn’t Exist](#), 10 August 2021; Carbon Direct, [Assessing the State of the Voluntary Carbon Market in 2022](#), 6 May 2022; Guardian, [Revealed: more than 90% of rainforest carbon offsets by biggest certifier are worthless, analysis shows](#), 18 January 2023.

Another relevant resource that can shed light on issues around using is Carbon Market Watch’s April 2023 feedback and input to a public consultation on Gold Standard’s methodology for the early phasing out of coal-fired thermal power plants and their replacement with renewables (see <https://www.goldstandard.org/our-work/innovations-consultations/methodology-concept-early-phase-out-coal-fired-thermal-power>).

15. Early retirement may pose particular challenges with respect to writing down the value of CFPP assets or associated financing. What additional considerations could be useful in the final guidance with respect to write downs? How important is this to consider in structuring transactions?

16. Are the proposed safeguards for financing mechanisms the right ones? Are they sufficient?

Part 4: Enabling financial institutions to take action

17. GFANZ seeks input on how internal financial institution policies and conditions may impact financing of coal phaseout plans, while at all times remaining cautious of identifying any non-public, commercially sensitive information. In particular, the following would be helpful:

- a. Specific wording around coal transactions (e.g., what types of coal transactions are allowed or not);*

- b. Treatment of financed emissions for MPO (e.g., carve-outs or use of additional metrics outlined in the RMI Managed Coal Phaseout: Metrics & Targets for FIs);*
- c. How financed emissions from MPO exposures are treated in the broader context of net-zero target setting.*

18. Given the potential for widely used financed emissions targets to disincentivize financing of coal phaseout plans, should coal phaseout plans be treated separately? Can this be achieved through greater transparency or do MPO transactions need to be fully carved out from financed emission targets? Does the need to finance coal phaseout justify amendments to financial institutions' emissions reduction targets?

Financed emission targets are a blunt and insufficient instrument for cutting FI contributions to climate change. They must be complemented with sectoral and engagement policies, including policies that end support for companies developing new fossil fuel projects, and which guide investors to adopt credible time-bound stewardship policies with clearly defined sanctions. They can also be complemented with policies on MPOs which carve out financed emissions from MPO transactions from other portfolio or sectoral financed emissions reporting and targets. However if this is to happen any MPOs must be very clearly designed and monitored to ensure that phase-outs happen as promised, that companies receiving MPO finance are not involved in building any new coal or other fossil fuel projects, and are not replacing lost coal capacity with fossil gas, biomass, ammonia or other carbon-intensive alternatives.