



NEXI

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Dear Mr. Bando,

Zelena akcija/Friends of the Earth Croatia is a non-governmental, non-partisan environmental organisation based in Zagreb, Croatia. We are writing to you with regard to the Plomin C coal power plant planned for construction in Croatia, to open a dialogue with you about this important topic.

We understand that Japan's Marubeni is among the potential bidders for the Plomin C project. We understand that coal power plants almost always need additional financing and therefore we are writing to you to ask whether NEXI is considering insurance for Plomin C? We were not able to find any information regarding this project on NEXI's website.

We believe that it is in NEXI's interest to hear our concerns about this project, so that it is able to take informed decisions on whether to finance it or not. We are also approaching other potential investors and have already written to Marubeni and other potential bidders for the Plomin C.

The main risks to the project are legal and economic.

Legal section

There are at least two legal processes ongoing against the project currently.

The first relates to Plomin C's non-compliance with the Istria County spatial plan. The Istria County spatial plan clearly states that any new power plant at the Plomin site must run on gas. It also clearly states that the total capacity of existing and new plants must not exceed 335 MW. However the new plant alone would be 500 MW, and this would be added to the 210 MW Plomin 2. Thus the plans for a new 500 MW coal plant are clearly in contradiction with the spatial plan. It must be noted that the spatial plan conditions were added after the highly controversial construction of Plomin 2, and that local public opinion remains firmly against increasing the coal capacity at the site.

Therefore Istria County has started a court case against the Ministry for Construction and Spatial Planning on the issuing of the location permit for the project. No hearings have yet taken place in relation to this case.

In addition, Zelena akcija has submitted a complaint - to the Constitutional Court – as a follow-up to a court

case which was concluded in October, in which Zelena akcija sought to cancel the environmental permit for the project. The magistrate chose not to examine the question of the spatial plan in our court case, stating that it would be examined as part of the Istria County case. We are also exploring further legal avenues.

In sum, we believe that legal issues continue to represent a serious risk to the Plomin C project.

NEXI's own environmental guidelines state that "*Projects must comply with laws, ordinances and standards relating to environmental and social considerations established by the governments that have jurisdiction over the project site (including both national and local governments). They are also to conform to environmental and social consideration policies and plans of the governments that have jurisdiction over the project site*". We are convinced in this case that the project does not conform to the Istria County Spatial Plan, which is obligatory, and that the Ministry of the Environment and Nature Protection's failure to take this into account when issuing the environmental permit means that the environmental impact assessment process was not in line with Croatian law.

Economic section

In addition, the economics of Plomin C are highly questionable. Prof.dr.sc. Enco Tireli, former Minister of Energy and Industry and Director for the Construction of Plomin 2, has undertaken an analysis (see <http://slidesha.re/18JYncL>) using the European Commission's Guide to Cost-Benefit Analysis (2008). He also examined different scenarios regarding CO2 emissions pricing and found that Plomin C on coal would not be economically acceptable even if the CO2 price stays at EUR 4 per tonne.

Other risks for the project include the fact that EU climate legislation is becoming progressively tighter, with policy goals of greenhouse gas emissions reductions of 80-95 percent by 2050 now in place, and binding targets for 2030 now under discussion. Although the EU Emissions Trading Scheme is in crisis, and it is not currently sending clear signals to the market, the medium- to long-term trend of EU policy is towards decarbonisation and a transformation to an energy efficient, renewables-based economy. This means that in a small economy such as Croatia, there is a high risk of a comparatively large, inflexible coal plant such as Plomin C having to be switched off before the end of its economic lifetime to meet climate targets and accommodate increasing proportions of renewable energy in the energy mix.

In spite of the unclear market signals currently being sent by the Emissions Trading Scheme, in the last few years there has been a virtual stand-still in launching new coal power plant projects. In the UK this is due to government policy stipulating that any new plant must include carbon capture and storage, which is not currently commercially or technically viable, but even in countries where no special restrictions are in place, investing into coal plants is increasingly seen as too risky.

In April 2013 research undertaken by Poyry consultants for the UK government, concluded that it is highly unlikely that new coal power plants will be built in the Netherlands, Germany or Spain in the foreseeable future.¹ The reasons given for Germany having abandoned 22 coal and lignite projects since 2007 and postponing four more are "*steeply rising capital costs, fierce local and environmental opposition, the priority dispatch for renewables, the economic downturn, falling demand, low wholesale electricity prices and the expectation of high carbon prices in the future*".

The majority of these risks are also relevant for Plomin C, and some investors already appear to have recognised them. RWE, which was originally cited by the Croatian government as the most likely strategic investor in Plomin C, has already indicated that it is not interested, and KOSEP from Korea has also confirmed that it is also no longer planning to bid for the project. We believe other potential investors would be wise to follow RWE and KOSEP's example.

Those few coal power plants in the EU licensed several years ago and now under construction or testing are also suffering. In the Sostanj 6 case in neighbouring Slovenia, for example, the project has become a heavy burden for the government as it is predicted that it will run at a loss of EUR 50 million annually² – even though it is a lignite plant and thus the fuel is cheaper than coal. The Duisburg-Walsum unit 10 in Germany has already lost EUR 600 million and has not even started operating yet³. There is no reason to believe that

1 Poyry Management Consulting: Outlook for new coal-fired power stations in Germany, the Netherlands and Spain, a report to DECC, April 2013, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/194335/Poyry_Report_-_Coal_fired_power_generation_in_Germany.pdf

2 <http://www.dnevnik.si/poslovninovice/ekonomika-tes-6-se-podira>

3 <http://uk.reuters.com/article/2013/12/09/evn-hitachi-damages-idUKL6N0JO1T320131209>

a coal power plant in Croatia would fare any better.

Such a situation has contributed to an international trend in drastically reducing coal financing, with public financial institutions leading the way. In 2013, the World Bank, US ExIm Bank, European Investment Bank and European Bank for Reconstruction and Development all announced virtual halts to lending for coal projects. The US, UK and Scandinavian countries also announced that they would work towards virtually ending coal financing abroad. We would be interested to hear how NEXI views these trends and how it plans to contribute to a shift towards an energy-efficient, renewables-based economy?

In our region of south-east Europe, there are multiple opportunities for investments in energy efficiency and renewable energy, and we would be glad to hear of NEXI's interest in these areas. Unfortunately the project promoter for Plomin C, has not taken sufficient steps to examine alternatives to the Plomin C project, as required by NEXI's environmental guidelines. Some alternative coal technologies were briefly mentioned, but no alternative fuel options nor locations nor capacities were examined in the EIA, with the exception of a brief claim that gas would be unsuitable⁴, without any evidence to back this up. Possibilities for energy savings or renewable energy were not examined at all.

We remain at your disposal to discuss any of the issues raised above, and look forward to hearing from you soon.

Thank you in advance for your response,

Yours sincerely,

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4 Interestingly, this is the opposite conclusion from that reached by Prof.dr.sc Enco Tireli in his analysis.