JPMorgan Chase

FINANCING COAL POWER EXPANSION IN POLAND

Introduction

This year's edition of the United Nations' annual climate meeting, COP24, is being held in Katowice — in the heart of Poland's coal country, and, for this reason, one of the most polluted cities in Europe.[1] While other European Union countries are setting near-term deadlines to sunset their final coal mines and generating stations, the Polish government, in complete disregard of climate realities and economic common sense, is pushing ahead with a 1,000 megawatt coal-fired power plant in the northeastern city of Ostrołeka.

The planned Ostrołeka C plant is being supported by JPMorgan Chase, via the underwriting of bonds for Energa, one of two Polish state-controlled coal utilities behind the project.[2]

JPMorgan Chase's environmental and social policy rules out direct finance for new coal plants in Organisation for Economic Co-operation and Development (OECD) countries, including Poland.[3] But because JPMorgan Chase is financing Ostrołeka C via Energa, rather than directly with project finance, the bank presumably views this transaction as not relevant to the letter of its policy. The policy also allows JPMorgan Chase to both directly and indirectly finance coal projects outside the OECD — where almost all new planned coal plants are located.[4] These two loopholes contribute to the fact that despite having a policy restricting financing for coal power, JPMorgan Chase puts more money into this sector than any other U.S. bank.[5]

Ostrołeka C has attracted particular controversy, not just for its serious health and climate impacts, but also because of its apparent lack of economic viability. UK analysts Carbon Tracker say that the project poses a "clear and obvious financial risk" for its owners Energa and Enea, and that ultimately the Polish taxpayer will be on the hook for future losses. "This could well be the last coal plant constructed in Poland," says Carbon Tracker's Senior Analyst Matthew Gray, "and if it gets built it is destined to be a financial and economic disaster."[6] In fact, the power plant was shelved in 2012 due to projected unprofitability, but in 2015, with newfound political backing, Energa and Enea revived their plans for the project.

The October 2018 report from the Intergovernmental Panel on Climate Change has brought unprecedented attention to the urgency of meeting the Paris Agreement's goal of limiting global warming to 1.5 degrees Celsius.[7] To do this, global net carbon emissions would have to fall by about 45% below 2010 levels by 2030, reaching zero around 2050. New Coalswarm and Greenpeace analysis has shown that OECD countries must lead the way by ending coal power by 2030.[8] This means that building any new coal-fired power plants is clearly incompatible with a 1.5° world — especially given that emissions from currently operating oil and gas reserves alone take the world past 1.5°C, even without burning any coal.[9]

JPMorgan Chase CEO Jamie Dimon has publicly stressed that he supports the Paris Agreement.[10] If he is serious about this commitment, his bank must decline any further support for Energa or Enea.

RAINFOREST ACTION NETWORK

FUNDACJA ROZWÓJ TAK ODKRYWKI NIE OGÓLNOPOLSKA KOALICJA

JPMorgan's Support for Ostrołeka C

The 1,000 megawatt Ostrołeka C power plant is projected to burn two million tons of coal per year from 2023 to 2063, emitting six million tons of CO2 annually and causing serious public health impacts.[11] JPMorgan Chase is enabling the construction of the plant by financing Energa, one of two state-owned, majority-coal utilities that are attempting to build the project.[12]

In February 2017, JPMorgan Chase, along with BNP Paribas, underwrote a €300 million eurobond for Energa.[13] Though the prospectus for this deal states that the money cannot be used for new power generation projects, money is fungible, and the bond issuance allows the company to redirect funds to Ostrołeka C and other expansions of coal capacity.[14] Energa's plans for Ostrołeka C were clear at the time of the bond issuance, with the prospectus describing the power plant as one of the company's "key strategic projects."[15]

In fact, this bond issuance constitutes the only private bank financing for Energa or Enea after 2015 — that is, since the Paris climate agreement was adopted.[16]

Energa and Enea — the other Polish coal utility that is co-developing the power plant — have secured approximately half of the funds needed for the project, which is projected to cost €1.1 to 1.4 billion.[17] The Polish Energy Minister Krzysztof Tchorzewski recently acknowledged that financing the rest of the project will be "challenging" because financial institutions are increasingly adopting policies that exclude coal.[18] On the insurance side, two major companies — Generali[19] and Allianz[20] — have explicitly stated that they will not get involved with Ostrołeka C, and five other large international insurers have policies that limit their insurance policies for new coal plants.[21]

One possible source of further funding for the company is another eurobond, as the original eurobond program allows for Energa to issue an additional €200 million.[22] If Energa moves forward with Ostrołeka C, JPMorgan Chase has a choice to make: either continue to finance the company and prop up Poland's dying coal industry, or strengthen its energy finance policy and cease funding Energa and other companies that are still planning to expand coal capacity.

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Shareholders, investors, financial analysts, and lawmakers increasingly recognize how financially tenuous and environmentally disastrous the project — and Poland's coal industry — is. Energa's minority shareholders only narrowly approved Ostrołeka C at the company's Extraordinary General Meeting in September 2018: 56% of those present voted for it, and 37% voted against.[23] Legal & General Investment Management has raised serious concerns about Ostrołeka C, asking Energa and Enea in October 2018 to provide "reassuring evidence of [the project's] financial viability and the role it will play in meeting the energy security and the carbon targets in Poland and Europe" before proceeding with construction.[24]

Carbon Tracker projects that the power plant, if built, would be "permanently unprofitable," with a net loss of €1.7 billion over its lifetime.[25] Furthermore, Ostrołeka C is facing a challenge in the courts. ClientEarth, a shareholder in both Enea and Energa, has sued Enea for approving the project.[26] Their resolution argues that greenlighting the power plant is an indefensible breach of fiduciary duty, given the rising cost of carbon, increased competition from renewable energy, and EU electricity market regulations.[27] One of Enea's trade unions has also sued the company over Ostrołeka C.[28]

Ostrołeka C is positioned to be the last coal-fired power plant in Poland and one of the last in the European Union. As numerous banks and insurance companies distance themselves from the project,[29] JPMorgan Chase faces a choice: will it facilitate the construction of a climate-destructive coal plant in a tenuous financial situation?

JPMorgan Chase should:

- Commit to not underwrite the additional €200 million in bonds allowed for in Energa's prospectus
- Commit to not extend any other corporate finance for Energa or Enea so long as they plan to build Ostrołeka C
- Strengthen its coal power policy to rule out corporate finance for companies planning expansion of coal power, and commit to phasing out support for coal power worldwide on a trajectory compatible with limiting global warming to 1.5°C

BY THE NUMBERS: *JPMorgan Chase and Coal Power*

JPMorgan Chase's coal policy prohibits direct financing of new coal-fired power plants in OECD countries,[30] including Poland.

At the same time, among U.S. banks, JPMorgan Chase was the number one financier of coal power between 2015 and 2017, with $3.93 billion in lending and underwriting for the 30 global companies with the most coal-fired power generation capacity.[31]

JPMorgan Chase's support for 120 top companies expanding coal-fired power increased year on year from 2016 to 2017, with 2018 financing on course to exceed 2017.[32]

Conclusion

JPMorgan Chase should align its policies and practices with a world in which climate change is limited to 1.5°C and human rights are fully respected. This entails immediately ending financing for the expansion of fossil fuels, including coal, and committing to a long-term phase out of financing for all fossil fuels, on a timeline compatible with limiting global warming to 1.5°C. As an immediate step, JPMorgan Chase should strengthen its coal policy to rule out corporate finance for companies planning expansion of coal power or coal mining. Ongoing and future support for Ostrołeka C, via financing for Energa or Enea, serves as a test case for the seriousness of its climate commitment.

Endnotes

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23. Management Board of ENERGA SA, "Current Report No. 41/2018," 03 September 2018, p. 4. See p. 2 of Client Earth's 20 September 2018 Briefing "Ostrołeka C: Energa's and Enea's Board Members' Fiduciary Duties to the Companies and Shareholders" for a calculation of the minority shareholder vote.
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PUBLICATION DATE: DECEMBER, 2018
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