

COAL-FIRED POWER GENERATION – SECTOR POLICY



BNP PARIBAS

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for a changing
world

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Preamble

As part of its commitment to corporate social responsibility, BNP Paribas has developed a consistent policy regarding its financial products and services for the coal-fired power generation (CFPG) industry.

Coal plays a significant role in the global energy mix. According to the International Energy Agency (IEA), as of 2014, approximately 41% of the world's electricity needs were provided by coal, making it the second source of primary energy after oil. Coal can contribute to the economic development of some countries by enabling low cost and reliable electricity access and by supporting their energy independency and according to IEA's two-degree scenario, it will still represent $\frac{1}{4}$ of the world's electricity production in 2025.

BNP Paribas also acknowledges that coal-fired power generation is a large emitter of carbon dioxide (CO₂) and a key contributor to climate change. According to the IEA, coal-fired power plants account for respectively 73% of CO₂ emissions from power generation and 30% of the total energy-related CO₂ emissions.

Therefore, a balance must be found between the needs for enhanced electricity access and economic development and the needs for reducing CO₂ emissions from human activities which is critical to limit climate change. Acknowledging the differentiated responsibilities of countries in the need to reduce greenhouse gas (GHG) emissions, BNP Paribas has chosen to stop financing any new coal-fired power plant (CFPP) projects, and to support only power producer companies that are actively involved in the energy transition undertaken by their country.

In addition, BNP Paribas considers that it is also very important that any CFPG company meets essential requirements regarding health, safety and the protection of the environment for future generations.

This sector policy establishes consistent rules for the bank's worldwide activities.

1 Objective

This policy defines a set of rules and procedures regarding financial products and services provided by BNP Paribas entities. They aim at addressing social and environmental issues of the coal-fired power generation sector and at establishing guidelines for conducting business in a responsible manner.

2 Scope

2.1 Geography

Worldwide.

2.2 Business

This policy covers:

- **Coal-Fired Power Plant (CFPP) projects:** construction, including expansion and upgrading of a Coal-Fired Power Plant. Other projects linked to the coal-fired power industry are not included in this scope.
- **Coal-Fired Power Generation (CFPG) companies:** utility companies involved in the power generation sector that owns or operates CFPPs and for which coal-fired power accounts for at least 30% of their total installed power generation capacity.

2.3 BNP Paribas Activities

BNP Paribas Group entities: this policy applies to all business lines, branches, subsidiaries and joint ventures of which BNP Paribas has the operational control. When BNP Paribas establishes new joint ventures in which it has a minority stake, it strives to include its standards as part of the joint venture agreement.

Financial products & services: this policy applies to all advisory and financing activities provided by BNP Paribas (lending, debt and equity capital markets, guarantees and advisory work, etc.). It covers all new CFPP projects and CFPG companies. For financing agreements with CFPG companies that predate this policy, the rules and standards set out below will be applied as such agreements are due for review.

Asset management: this policy applies to all BNP Paribas entities managing proprietary assets and third-party assets, with the exception of index-linked products. External asset managers are actively monitored and encouraged to implement similar standards.

3 Rules and standards of the policy

The coal-fired power generation sector is highly regulated at both national and international levels, particularly on air emissions. BNP Paribas requires CFPG companies to comply with applicable laws and regulations as well as with international conventions ratified by their operating countries. This policy also sets additional criteria to be respected by CFPG companies.

These criteria were identified to address the main issues highlighted in the preamble. Such criteria are split in two categories: mandatory requirements and evaluation criteria. **Mandatory requirements** are to be understood as sine qua non: those have to be met without exception before BNP Paribas considers providing financial products or services to a CFPG company. In addition to these mandatory requirements, **evaluation criteria** have been identified to develop the analysis performed by BNP Paribas. Based on the results of such complementary due diligence, BNP Paribas reserves its right to request additional requirements or decline its involvement even if the mandatory requirements are met.

3.1 Criteria for Coal-Fired Power Plant projects

BNP Paribas will not provide financial products and services to CFPP projects, regardless of their location.

If deployed at a large scale, carbon capture & storage (CCS) technology could result in important reduction of CO₂ emissions for coal-fired power plants. Should the Group be asked to support a CFPP project with CCS technology, such project would be assessed taking into account specific environmental and social criteria.

3.2 Criteria for Coal-Fired Power Generation companies

3.2.1 Mandatory requirements

BNP Paribas will only provide financial products and services to, or invest in, CFPG companies that meet the following requirements:

- The CFPG company has a diversification strategy to reduce the share of coal in its power generation mix¹. This diversification strategy must be at least as ambitious as the national commitment to limit GHG emissions of the country where its main operations are located. The implementation of the strategy will be annually monitored.

¹ In certain countries, the government imposes a national energy strategy on state-controlled companies. For such companies, BNP Paribas will nevertheless require that they take actions to lower their CO₂ intensity (e.g. through development of renewable energy projects, replacement of old power plants by modern ones, or energy efficiency improvements).

- The CFPG company discloses or can provide on demand its safety track record (work accidents, fatalities...).
- The CFPG company discloses or can provide on demand the following environmental data: atmospheric emissions of sulphur dioxide (SO₂), nitrogen oxides (NO_x), particulate matter (PM), and carbon dioxide (CO₂), as well as water consumption, ash generation and disposal methods.

3.2.2 Evaluation criteria

BNP Paribas will also carry out an analysis of the CFPG company, based on the following evaluation criteria.

- The CFPG company is not subject to regular and repeated criticism about its environmental, social and governance performance on material issues², or is taking actions to address such issues.
- The CFPG company has a policy in place to protect its workers health and safety conditions (measures to reduce hazards, training programs).
- The CFPG company has put in place a consultation process for communities affected by the development of new projects.
- The CFPG company has a convincing environmental, social, health and safety track record.

BNP Paribas regular client acceptance policies constitute the basis of any engagement. For any transaction, BNP Paribas requires CFPG companies to have a transparent attitude regarding its activities, group structure and shareholding up to the ultimate level of control.

3.2.3 Specific case of new clients

Starting from the publication date of this Policy, BNP Paribas will not onboard any new client for which more than 50% of the turnover is linked to coal. Moreover, any new client should respect this policy criteria as defined in 3.2.1 and 3.2.2.

4 Group-Level Implementation Mechanisms

Results of the evaluation according to the present policy will provide elements for decision making by BNP Paribas. As and when necessary, an ad hoc senior management committee shall examine these results. If required, BNP Paribas may request complementary due diligence before concluding on the acceptability of the transaction.

Operational tools and awareness workshops are rolled out to ensure that Group's staff is able to implement this CSR sector policy.

² Such as severe controversies and incidents related to violations of any UN Global Compact Principles:
<http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html>

Asset Management and services

BNP Paribas entities managing assets will progressively implement all the relevant requirements of this policy. A transition is indeed necessary due to the fact that existing and potential investors have to be informed of the existence and implications of this policy.

5 Policy Disclosure and Follow-up

BNP Paribas' stakeholders will be informed of the existence and the content of this policy. Such policy will be posted on BNP Paribas' website. Furthermore a copy will be systematically provided to our clients and potential clients as part of the due diligence process or upon discussion of any financial services to be provided subsequent to the official release date of this policy.

BNP Paribas will review this policy regularly and in the light of the prevailing circumstances it may update it to make sure it is in continued alliance with national and international regulations and best practices.

BNP Paribas welcomes any constructive feedback and comments on this policy.

6 Disclaimer

In order to comply with regulations and to implement the principles defined in its internal procedures and sector policies, BNP Paribas does its best to get information, particularly from coal-fired power generation companies, on their sustainability policies and practices. BNP Paribas bases its policy on the information gathered from coal-fired power generation companies and from its partners. However, it is dependent on the quality, accuracy and up-to-datedness of information.

7 Appendices

7.1 Sector glossary

The following definitions apply in this policy.

CCS: Carbon Capture and Storage is a process consisting of the separation of CO₂, transport to a storage location and long-term isolation from the atmosphere. While CCS is a promising technology and a key climate change mitigation option for the future, it is unlikely to be widely available on a commercial basis before 2020, although opinions differ among various stakeholders. At the time of publication of this policy, there are three main technologies currently available:

- Pre-combustion CO₂ capture involves a previous gasification of coal to produce a gas stream of CO₂ and hydrogen, captured and stored after the segregation of the two gases.
- In Post-combustion capture CO₂ is captured from the flue gases by using a chemical solvent that reacts with CO₂. The cleaned flue gas is released into the atmosphere, while the captured CO₂ is transported to a storage site.
- Oxy-fuel combustion involves burning fossil fuel in nearly pure oxygen rather than in air. This produces a nitrogen free flue gas with water vapor and a high concentration of carbon dioxide as its main components. This makes it easy to further concentrate the flue gas to an almost pure stream of CO₂.

CO₂ intensity: it is calculated by dividing the annual CO₂ emissions of a CFPG company by its total power generation during that same period of time. It is expressed for instance in gCO₂/kWh.

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