THE PLOMIN C COAL PLANT:
Analysis of compatibility with Crédit Agricole energy policies

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Introduction

The Croatian electricity company Hrvatska Elektroprivreda (HEP) is planning to construct a new 500 MW unit at the Plomin power plant on the Istrian coast. The project, entitled “Plomin C” is being presented as a reconstruction of the Plomin 1 unit, even though it is nothing of the kind, having four times greater capacity than Plomin 1’s 120 MW.

If built, Plomin C would operate until beyond 2050, by which time the EU plans to have a fully decarbonised electricity sector. This single project would therefore prevent Croatia from making its contribution to the EU’s climate action commitments.

The plant has been pushed by HEP and the Croatian government. The consortium that has been chosen as the preferred bidder for the €800 million project consists of the Japanese Marubeni Corporation, which will buy at least 50% of the power produced, and the French multinational Alstom, which will provide the equipment1.

Environmental concerns have been denied, while concerns about Plomin C’s legality, economic viability, the reputation of the companies chosen to implement the project, and potentially high costs for electricity consumers have been met with silence.

The Istria County Spatial Plan - which stipulates that any new unit must run on gas, and that the whole Plomin complex must not exceed 335 MW - has been illegally ignored, while the planned long-term power purchase agreement looks unlikely to be acceptable under EU state aid legislation.

No serious attempt has been made to examine alternatives to coal, in spite of Croatia's excellent potential for energy efficiency and renewable energy, especially wind and solar, and its high level of electricity interconnections with neighbouring countries.

All these factors have made Plomin C more and more unpopular. In 2014, a country-wide IPSOS poll showed that 64% of respondents are against the plant, while 90.6% believe that Croatia's energy policy should be based on renewable energy. In March this year, a public consultation run by the Istria County authorities showed that 92% of respondents oppose a new coal-powered unit, while a local referendum on 29 March 2015 showed that 94% of voters oppose the plant. This opposition is partly explained by the health impacts of the pollution from the existing plant and the predicted additional pollution from Plomin C.

According to a report by Greenpeace, it will cause 680 premature deaths during the plant lifespan as well as 3,970 lost work-days, and these externalities are predicted to cost €124.8 million2.

Against this background, the development of the project may well be determined by the financial decisions of banks and investors to support or rule out the project.

A coalition of non-governmental organizations, coordinated by BankTrack, has contacted 38 of the main coal banks at international level in order to warn them about the risks of the project and ask them to not support it. To date, only the French bank Crédit Agricole is involved in the project, in which it plays a critical role through an advisory mandate with Marubeni.

Crédit Agricole highlights “its strong commitment to financing the real economy and supporting major projects aimed at sustainably revitalising the regions”, acknowledges its responsibility “for determining its own financial and investment policies” and, through these, “contributing to the achievement of citizenship-oriented goals”. That is why the bank has developed and incorporated CSR criteria in its financing and investment policies.

1 http://serbia-energy.eu/croatia-japanese-marubeny-is-the-preferred-bidder-for-plomin-c-thermal-power-plant/
“Combating global warming, protecting biodiversity and respecting human rights are three major issues recognised in the CSR policy adopted by the Crédit Agricole S.A. group”\(^3\). Regarding climate change, Crédit Agricole considers that “the fight against global warming is a major challenge for society and one of the axis of the corporate social responsibility practices of Crédit Agricole”\(^4\). Crédit Agricole initiated several measures, including the estimation and mapping of the greenhouse gas emissions associated with the economic activities that it finances, and the adoption of energy policies, in particular a Metals and Mining Policy and a Coal-fired Power Plants Policy, the latter of which was reviewed in June 2015\(^5\).

More recently, on 13 May 2015, “the Crédit Agricole S.A. Group announced its decision to no longer finance coal mine projects and operators specialised in this activity […] in order to cut down on the use of fossil fuels and meet the objective of limiting global warming to 2°C by the end of the 21st century”\(^6\). The revised Metals and Mining Policy of the bank states that “the Bank will not participate in financings or investments directly related to the development, construction or expansion of any […] coal mining project”, and that “the Bank will not develop relationship with clients predominantly active in coal mining”.

\(^3\) http://www.ca-cib.com/group-overview/csr-sector-policies.htm
\(^5\) http://www.ca-cib.com/group-overview/csr-sector-policies.htm
\(^6\) http://www.ca-cib.com/group-overview/csr-sector-policies.htm
ASSESSMENT OF COMPATIBILITY WITH CRÉDIT AGRICOLE’S POLICY ON COAL-FIRED POWER PLANTS

Crédit Agricole’s Coal-fired Power Plants Policy “applies to all financings, investments activities and more broadly all forms of involvements of Crédit Agricole CIB […] in the coal-fired power plants sector”, therefore Crédit Agricole’s advisory mandate for to Plomin C is covered by this policy.

According to this policy, the bank will analyse every transaction linked to a coal-fired power plant according to a list of criteria in order to “demonstrate whether the choice of the technology is appropriate according to the local economy, the availability of natural resources, the energy policy of the country, the technical constraints (electricity discharge, level of development of the transmission grid, conditions imposed by the regulator….), whether viable alternatives exist”. The policy also states, “the outcome of this analysis will be a strong element of assessment in the process of decision”.

But Plomin C raises many issues regarding these criteria, and as shown in this briefing, for all the following reasons, Crédit Agricole’s advisory mandate for the Plomin C power plant is not consistent with the bank’s sectoral policies and commitment to fight global warming, protect biodiversity and respect human rights. As a consequence, Plomin C is a threat not only to people and the climate, but also to Crédit Agricole’s consistency, credibility and reputation.

RELEVANCE OF THE PLANT FOR CROATIA’S ENERGY SECURITY, AND EXAMINATION OF ALTERNATIVES

One of the main criteria in Crédit Agricole’s Coal-fired Power Plants Policy is to consider whether viable alternatives exist, and as a result whether a coal technology is appropriate. Another relevant criterion is the importance of the plant for the country’s energy security and economy.

Plomin C fails on this basis:

- The Plomin C project is part of the (at least) 1200 MW of new coal capacity foreseen by 2020 Croatia’s Energy Strategy, which was developed in 2009. But the strategy was based on around 5% annual growth in GDP and as a result foresees a 3.1% increase in energy use annually (or 2.7% with energy efficiency measures) and a 3.5% net increase in electricity use annually. Instead of the planned overall GDP growth of 21.5% in the period from 2009 to 2012, a negative rate of -9.0% was recorded, meaning a difference of 30.5% from the forecasts.

- Plomin C itself first appeared on official plans in September 2010, when the government approved a wish-list of 30 investment projects including Plomin C. The projects were presented as a list with no public consultation and no analysis of whether they were the best projects to address the issues at hand (e.g. electricity supply). It has never been demonstrated to the Croatian public that the capacity provided by Plomin C could not be provided by alternative energy sources and increased energy efficiency.

- The alternatives analysis in the Environmental Impact Assessment (EIA) was almost non-existent, consisting of sporadic mentions of natural gas that were dismissed with very little justification. The fact that no renewable energy resources had been examined at all was picked up by many of those

7 [http://narodne-novine.nn.hr/clanci/sluzbeni/2009_10_130_3192.html](http://narodne-novine.nn.hr/clanci/sluzbeni/2009_10_130_3192.html), point 6.3.3.3.
8 [http://narodne-novine.nn.hr/clanci/sluzbeni/2009_10_130_3192.html](http://narodne-novine.nn.hr/clanci/sluzbeni/2009_10_130_3192.html), point 5.1. and 6.1

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commenting on the EIA but in its response as part of the permit (07.09.2012), the Ministry for the Protection of Environment and Nature stated that the study author had not been obliged to carry out an alternatives analysis and that alternatives had been studied in the 2009 Croatian National Energy Strategy. This can in no way be considered an alternatives analysis for Plomin C as the Energy Strategy development process was marked by non-transparency about data, excessive demand forecasts, and failure to take on board public comments.

Croatia is, according to the European Commission, on track to meet its 2020 renewable energy target of 20% of total final energy consumption\(^{11}\) but will have to increase this figure to contribute to the EU's 2030 target and 2050 goals. Concerning Croatia's renewables potential, this should not be a problem: potential for growth in this sector is significant compared to the size of the country's electricity market. In recent years wind energy has finally taken off, and by the end of 2014, 346.5 MW was installed. Technical potential is around 3,143 MW while environmentally acceptable potential, avoiding protected areas, Special Areas of Conservation and Special Protection Areas, is around 1,051 MW.\(^{12}\) Yet the government is still preventing the development of the wind and solar PV sectors by placing extremely low caps on the amount of capacity eligible for feed-in tariffs in the country's 2013 Renewable Energy Action Plan until 2020. The quotas set out for solar PV (52 MW) and wind power (400 MW) have already been filled, effectively braking further development until unless a new Plan is developed.

### COMPLIANCE WITH REGULATORY FRAMEWORK AND RELEVANCE FOR THE NATIONAL ECONOMY

According to Crédit Agricole's Coal-fired Power Plants Policy, two of the criteria assessed by the bank are the compliance of the project with the national and supranational regulatory framework as well as the relevance of the project for the national economy. “The compliance of the project with the national regulatory framework and with all treaties and international rules to which the Country has committed and is bound” is stated to be an exclusion criterion.

Plomin C project does not comply with the national regulatory framework:

- The Plomin C plant contradicts the Istria County Spatial Plan, which stipulates that the total capacity at the site (including the third block) may total only 335 MW, and that any third block must run on gas.
- The local and national authorities’ decisions to issue a location permit and an environmental permit for the plant in contravention of the County Spatial Plan are currently subjects of court challenges by the Istria County authorities and by environmental NGOs\(^ {13}\).

12 [https://bib.irb.hr/datoteka/537782.Wind_Energy_and_Environmental_Protection.pdf](https://bib.irb.hr/datoteka/537782.Wind_Energy_and_Environmental_Protection.pdf)
13 On 29 October 2012 Zelena Akcija/Friends of the Earth Croatia, together with Green Istria and local people, submitted a court appeal to overturn the environmental permit approval. In its ruling in October 2013, the court declined to look into the NGOs’ main argument regarding the incompliance with the Istria County spatial plan, stating that a separate court case (Istria County against the Ministry of Construction and Spatial Planning) covered the same issue. Zelena akcija appealed to the Constitutional Court. In 2012 Istria County launched an administrative complaint against the Ministry of Construction and Spatial Planning regarding the Spatial Permits, which was refused, and launched appeals to the High Administrative Court and in 2013 to the Constitutional Court. The courts have so far failed to examine the most pertinent issues, and this is increasing the level of public opposition to the project and a feeling that the central government is determined to trample on local people’s opinions. At the time of writing (August 2015) a complaint is still pending at the administrative court in Rijeka. It was submitted by Zelena akcija/Friends of the Earth Croatia on 02.01.2015 against the Ministry of Construction and Spatial Planning regarding its failure to cancel the spatial permit for Plomin C in spite of its contradiction with the Istria County spatial plan.
This Spatial Plan was the compromise result of serious public opposition to coal raised around the building of Plomin 2 in 2000 and that is still prevailing today.

In addition to the lack of examination of whether Plomin C is the best way to meet the energy needs of the country, the project is likely to have a negative economic impact:

- Croatia as an EU member state is subject to the Emissions Trading Scheme. According to a calculation by expert Professor Enco Tireli - who worked at the Croatian state electricity company HEP for more than 15 years and was construction manager for Plomin 2 - has found that the plant is unlikely to be profitable in part due to the need to pay for CO2 emissions as part of the ETS. Interestingly, he finds that the plant would still not be profitable even if CO2 prices stayed at €4 per tonne.

- Any shortfalls in income will presumably be covered by the strategic investor charging higher electricity prices, which would have to be covered by the general public.

Plomin C project risks not complying with supranational regulatory framework:

- In order to overcome the project's poor economics, the Prequalification Document for Plomin C suggests that HEP will sign a long-term power purchase agreement with the project company to buy at least 50% of the electricity produced for at least 20 years, and that HEP may be willing to include operation of Plomin 2 into the contract.

- Despite the refusal of the company to disclose information about the planned power purchase agreement, including the price of electricity that would be guaranteed to the project company, HEP has confirmed that such an agreement is planned and discussions are ongoing with the European Commission about it.

- However, an analysis by Hungarian law association EMLA undertaken in May 2014 shows that it is unlikely that such an agreement can be compatible with EU state aid rules. A further concern is about the price per MWh being offered as part of the contract. Croatian media have reported figures between €75 per MWh and €110 per MWh depending on whether 50% or all electricity is included in the contract. Both of these prices are much higher than current electricity prices in Croatia.

RELEVANCE OF THE PROJECT TO THE NEW POLICY ON COAL MINING AND IMPACT ON CLIMATE CHANGE

According to Crédit Agricole’s Coal-fired Power Plants Policy, one of the bank’s concerns is the quality of the coal. Crédit Agricole reviewed this policy in June 2015, integrating a new criterion, which is that “the use of high calorific value fossil fuels is expected to be preferred as per the recommendations of the IFC’s Environmental, Health, and Safety Guidelines for Thermal Power Plants”.

- Crédit Agricole’s policy does not go nearly far enough, as studies have confirmed that at least 80% of all fossil fuels need to remain in the ground if we are to stand a chance of keeping climate change under 2 degrees. However, for the sake of comparing Plomin C with the policy, according to the project's environmental permit, the coal to be used will be bituminous coal of between 24 and 29

http://www.slideshare.net/encotireli/saetak-rezultata-studije-izvodljivosti-plomin-c
http://www.nature.com/nature/journal/v517/n7533/full/nature14016.html

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MJ/kg\(^{19}\) – neither the best (anthracite) nor the worst (lignite) quality. More generally, coal is a low calorific value fossil fuel compared to other fossil fuels such as oil and gas, which emits at least 1/3 less carbon emission per kWh.

➔ In any case, any coal mining has serious environmental and social impacts, as Crédit Agricole has implicitly recognized with its May 2015 decision to halt financing for coal mining projects and for companies predominantly active in coal mining.

Crédit Agricole reviewed its Metals and Mining Policy in June 2015, integrating “its decision to no longer finance coal mine projects and operators specialised in this activity” in order “to cut down on the use of fossil fuels and meet the objective of limiting global warming to 2°C by the end of the 21st century\(^{20}\). The policy states that "coal raises a specific dilemma to the extent that, while a significant share of the global energy mix is still based on its combustion, the current development of the coal industry seems incompatible with the international agreement to combat climate change". To support the building of a new coal power plant that will run on coal and emit tonnes of carbon emissions for more than 40 years is highly inconsistent with this new policy.

➔ Despite using supercritical technology, as required in Crédit Agricole’s Coal-fired Power Plants Policy, this one coal power plant alone will emit 2.644 million tonnes CO2 equivalent (CO2eq) annually according to the project’s EIA. As a result, it will swallow up a significant portion, if not most of the country's carbon budget by 2050: according to EU goals to reduce GHG by 80-95\% by 2050, Croatia's entire emissions will be limited to somewhere between 1.566 and 6.264 million tonnes CO2eq annually.

➔ Plomin C will most likely not be built on time to affect the country's 2020 target but it would prevent Croatia from making a significant contribution to the EU's 2030 target or 2050 goals, and would prevent Croatia from decarbonising its energy sector by 2050 as foreseen in the EU's Energy Roadmap.

➔ To build Plomin C would leave hardly any room for other sectors like transport and industry to emit CO2, even though they are projected to be much harder to decarbonise than the energy sector.

**FEASIBILITY OF CARBON CAPTURE AND STORAGE**

Another criterion addressed by Crédit Agricole when assessing a coal-power plant project is its coherence with the national strategy developed for carbon capture and storage (CCS).

➔ In 2009 while drafting the national energy strategy, the authors estimated that carbon capture and storage would be commercially available in ten years from the drafting of the strategy (i.e. 2018-9), which seems highly optimistic, and states that after 2020, emissions from the new coal power plants will go down because of the application of carbon capture and storage\(^{21}\). This latter point has not been backed up by the EIA for Plomin C, which discusses carbon capture and storage but leaves the question of implementation open, to be decided later according to the development of the technology and legislation on this topic\(^{22}\).

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\(^{19}\) IPPC permit for Plomin C: [http://www.mzoip.hr/doc/rekonstrukcija_te_plomin_-_zamjena_postojeceg_bloka_1_s_blokom_c_u_cilju_modernizacije_i_povecanja_kapaciteta_.pdf](http://www.mzoip.hr/doc/rekonstrukcija_te_plomin_-_zamjena_postojeceg_bloka_1_s_blokom_c_u_cilju_modernizacije_i_povecanja_kapaciteta_.pdf)


\(^{21}\) [http://narodne-novine.nn.hr/clanci/sluzbeni/2009_10_130_3192.html](http://narodne-novine.nn.hr/clanci/sluzbeni/2009_10_130_3192.html), point 11.1.4

\(^{22}\) Environmental Impact Assessment for Plomin C, Chapter 1 p.133-140

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The origins of the coal are also causes for concern:

- CCS looks unlikely to be implemented at the plant, and as far as we are aware no CCS feasibility assessment has been carried out. Even without the additional cost of CCS, Professor Enco Tireli has calculated that the plant would be uneconomic even with EU ETS prices at €4 per tonne.

- We are not aware of any other analysis having been carried out as to the feasibility of implementing this technology in Plomin C. The EIA though does not suggest any reason to believe this is possible in the near future, not only because the technology is not yet in widespread commercial use but also because of a lack of suitable locations to store the CO2.23

RELEVANCE OF THE PROJECT FOR CROATIA’S ENERGY INDEPENDENCE AND OF THE ORIGIN OF THE COAL

According to Crédit Agricole’s Coal-fired Power Plants Policy, two of the bank’s concerns are the role played by the project in assuring the energy independence of the country as well as the quality of the coal.

- The last Croatian coal mine was closed in 1999, a year before Plomin 2 was put into operation, so the coal for Plomin C will be bought on the spot market. The project will decrease dependence on imported electricity (in 2010 – the latest year for which Eurostat figures are available - Croatia imported 575,000 toe (tonnes of oil equivalent) of electricity) but instead it will increase Croatia’s dependence on imported coal, as the country has exhausted its own coal resources. It will not then play a significant role in the energy independence of the country, contrary to what HEP and the Croatian Economy Minister state.

The origins of the coal are also causes for concern:

- Between 2010 and 2015 the main origins of coal used at the existing Plomin units were Colombia, Russia, South Africa and the United States24. The coal for Plomin C is likely to originate from countries like Colombia and South Africa but also Indonesia where coal mining is booming. All these countries are well-known for human rights abuses in the mining sector – even for the US, the practice of Mountain Top Removal mining has been criticised by the United Nations working group on the issue of business and human rights25. According to a presentation by HEP, around 25% of the coal used at Plomin comes from Colombia, making it one of the largest sources of coal for the plant26. In Colombia, coal mining has led to a lack of water for drinking and crops, forced resettlement and physical violence against those who complain.27 In Russia, the size of the country makes it difficult to assess which mines the coal may come from, however across the country, in recent years anyone negatively affected by large projects and seeking to defend themselves and/or the environment has been able to expect severe repression28. The example of a coal mine in the Kemerovo oblast is one such case, in which the village of Kazas, belonging to the Shor indigenous

23 Environmental Impact Assessment for Plomin C, Chapter 1 p.133-140

24 Source: Croatian statistical office. Strangely, for some years Uruguay is also mentioned as a source of coal imports to Croatia, although the country does not seem to have significant coal production.


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people, was destroyed in order to forcibly resettle the inhabitants. Residents who did not consent to be moved were subject to arson attacks on their houses.²⁹ The situation in South Africa is particularly dramatic, with around 6000 abandoned mines causing high levels of acid mine drainage polluting groundwater and waterways with acid and heavy metals, as well as underground coal fires and land instability and the sudden appearance of dangerous sinkholes. The taking of land away from agriculture is also a major problem given the scale of coal-mining in the country.³⁰

PLANT LOCATION AND RELEVANCE FOR THE LOCAL ECONOMY

According to Crédit Agricole’s Coal-fired Power Plants Policy, two of the criteria assessed by the bank are the plant location and the relevance of the project for the local economy.

The Plomin C project is inconsistent with Istria County’s energy needs and could jeopardize the local economy:

- Plomin’s location made sense in the early 1970s when Plomin 1 was constructed, as Croatia was still producing coal nearby in the Labin area. However the last Croatian coal mine was closed in 1999, a year before Plomin 2 was put into operation. Plomin was retained as the location for Plomin 2 and Plomin C due to its coastal position, which also enables coal imports, but also because of inertia: HEP believes it is easier to construct new facilities on an existing site than to start anew. However this makes very little sense in terms of proximity to electricity users and thus minimizing transmission and distribution losses. Istria County is home to just 208,055 people, or 4.85% of the Croatian population, according to the 2011 census.³¹ Istria County's spatial plan shows that the existing Plomin plants generate an average of 2172 GWh per year, while consumption for Istria County for 2010-2012 was around 1180 GWh, or around half of the existing plants' output. This difference would be even larger with the new, much larger plant. Rijeka, the nearest city (128,624 inhabitants), is 50 km away. The largest population centre, and, given the relatively small amount of industrial production in Croatia presumably also the largest user of energy, is Zagreb, with 790,017 inhabitants.³³ Thus any larger electricity facilities planned should be near to Zagreb and other main population centres.

- The Plomin location is also problematic in terms of its clashes with tourism and other activities such as agriculture. The Plomin bay is an otherwise beautiful location in the attractive county of Istria. Having a coal power plant in the vicinity puts Labin and the surrounding villages at a disadvantage for tourism in spite of Labin's very attractive old town and the quaint old village of Plomin nearby. While the impact of the existing plants cannot be undone until they close, exacerbating the impacts by constructing a new, much larger unit with a lifetime beyond 2050 can be avoided.

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²⁹ https://www.urgewald.org/sites/default/files/early_warning_submission_russia_indigenous_peoples_kazas.pdf
³¹ http://www.istra-istria.hr/index.php?id=14
³² http://www.dzs.hr/Hrv/censuses/census2011/results/htm/H01_06_01/H01_06_01_01.html
³³ http://www.dzs.hr/Hrv/censuses/census2011/results/htm/H01_06_01/H01_06_01_01.html
QUALITY AND EXPERIENCE OF THE CONSTRUCTOR AND OPERATOR OF THE PLANT

Another criterion addressed by Crédit Agricole when assessing a coal-power plant project is the quality and experience of the constructor. In September 2014, Marubeni was chosen as a preferred bidder, and negotiations have been ongoing ever since, and Alstom was named as the main equipment provider and contractor\(^\text{34}\). Both companies have a poor integrity record, including several convictions for corruption offences:

- Alstom or its staff have been found guilty of corruption offences in relation to at least seven cases in seven years across different continents, and is under investigation for several more, including around the Sostanj 6 lignite power plant in Slovenia. As a result Alstom has been under observation by the Norwegian Finance Ministry since 2011 after its Council on Ethics recommended in 2010 to exclude Alstom SA from the Government Pension Fund Global.

- Marubeni has been found to have been involved in two major corruption cases within three years, for which it has had to pay penalties of USD 88 million and USD 54.6 million respectively. As a result the company was debarred from receiving loans from the Japan International Co-operation Agency for nine months starting from March 2014.\(^\text{35}\)

\(^{34}\) http://www.hep.hr/hep/novosti/vDetail.aspx?id=4283&CatID=1&lang=HR


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CONCLUSION

As detailed in this report, the Plomin C project would be non-compliant with Crédit Agricole’s Coal-fired Power Plants Policy and inconsistent with its Metals and Mining Policy. As stated above, Crédit Agricole’s Coal-fired Power Plants Policy applies to “all financings, investments activities and more broadly all forms of involvements of Crédit Agricole CIB (the « Bank ») in the coal-fired power plants sector”, and therefore includes the advisory mandate of the bank with Marubeni.

The policy states that “where the transaction is an advisory mandate, the Bank will seek to promote the principles included in this Policy. The Bank will not enter into an advisory mandate when aware at the date of the mandate that the envisaged project definitely exhibits an exclusion criterion. When considering financing a project for which the Bank has acted as financial advisor, it shall only do so in compliance with the present Policy, including in respect of the exclusion criteria”.

However, Plomin C does breach the bank’s exclusion criteria, in particular because it does not comply with Croatia’s national regulatory framework, in addition to the many other concerns the project raises when assessed against Crédit Agricole’s energy policies.

In conclusion, the bank should not have entered into an advisory mandate for the project. In order to uphold its commitments under its CSR policies, Crédit Agricole should immediately cease its advisory mandate for Plomin C.