Sector policy – COAL-FIRED POWER PLANT SECTOR

Introduction

Crédit Mutuel Alliance Fédérale may be requested, through its various activities, to participate in operations related to sensitive sectors involving social and environmental risks. Being concerned about its social and environmental responsibility with regard to the performance of such operations, the Credit Mutuel-CM11 Group has undertaken to define sector policies aimed at outlining the scope and establishing criteria and principles to be observed during the performance of its activities in areas where the social and environmental impact is the highest.

The measures stemming from these policies apply to the entire group, subject to compliance with the legal and regulatory provisions applicable to each entity. These measures may be revised each time the Crédit Mutuel Alliance Fédérale deems it necessary.

The group’s priority is to accompany the financing of energy transition and contribute to reducing greenhouse gases through its financing choices.

First and foremost, Crédit Mutuel Alliance Fédérale states that it intends to refrain from participating in operations related to the building of new coal-fired power plants regardless of the country in which they are located.

Likewise, the group intends to refrain from entering into relations with companies whose main activity consists in coal mining or is over 50% related to coal sector activities (coal mining, coal transports, processing of coal and coal-fired power generation). This provision applies to all the following banking and financial operations: project financing, acquisition financing, international trade financing, corporate financing, issuing guarantees devoted to new coal-fired plants, derivatives.

Crédit Mutuel Alliance Fédérale provides banking and financial services to companies operating in the electricity generation sector. In this sector, on a global level, coal accounts for a significant proportion of the energy mix and many companies are still involved in this activity, particularly regarding the operations and maintenance of existing facilities. According to the IEA, coal-fired power plants account for 73% of CO₂ emissions related to electricity generation and 30% of total energy-related CO₂ emissions.

The group has implemented the present sector policy – coal-fired power plant sector – which is part of the group’s corporate social responsibility policy (CSR).

It acknowledges:

- The existence of conventions, international standards and national regulations specific to coal-fired electricity production;
- The role of coal-fired power plants in the economic development of some geographic regions: emerging markets, non-interconnected territories (overseas territories), which do not have any other energy sources or financial means to develop them in the medium term and for which access to energy is vital to stepping up their economic development;
- The pollution of air, land and water from coal-fired plants;
- The competence required from the various players involved in coal-fired power plants with a view to monitoring, controlling and lessening the environmental and social impacts linked to this activity, notably by using the best technologies available to reduce greenhouse gas emissions.

1 Scope

This policy applies to project financing1, acquisition financing, long/short-term investments2, corporate financing, issuing of guarantees, financing international trade operations3, and financial and consulting services provided to companies producing electricity from coal-fired plants or active in the coal-fired power plant sector (optimisation, servicing-maintenance, dismantling, etc.).

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1 In this context, “project financing” is understood as a well-established category of corporate financing called specialised lending (defined in particular by Article 147.8 of European Regulation No. 575/2013) which meets specific criteria. Such criteria, as validated by ACP (African, Caribbean and Pacific countries) in October 2012, are used for establishing the eligibility of operations included in the CM-CIC Project Financing portfolio.

2 Management for their own or third party account, excluding the passive management called indexed management

3 The financing of international trade operations aims to finance, for a corporate client, its imports, exports or investments carried out by its international subsidiaries (outside the framework of project financing as defined above), or to guarantee financial risks related to these operations.
2 Reference Framework

Crédit Mutuel Alliance Fédérale makes sure that any request for financing, short-term investment, issuing of guarantees, investments or financial products and services supply targeted by the sector policy – coal-fired power plant sector – complies with:
- laws and regulations in force, including those relative to greenhouse gas emissions, mainly stemming from the 24/11/2010 European directive reducing emission limit values for coal-fired power plants of over 20MW, and relating to the CO₂ Emission Trading Scheme system,
- international standards and conventions made to best manage environmental and social impacts of the sector. These are included in the appendix.

3 Analysis Criteria

The ways in which the group may interact with companies in the coal-fired electricity generation sector primarily depends on the host country.
Then, a distinction is made according to the banking and financial operations concerning (i) operations (excluding project financing) with companies involved in coal-fired electricity generation, or (ii) the financing of projects related to power plants that already exist and customers of the group.

3.1 Host Country eligibility criteria

Crédit Mutuel Alliance Fédérale may take part in banking or financial operations with companies involved in coal-fired electricity generation, provided that the country in which the coal-fired power plant is located:
- is not subject to any financial sanctions applied by the French, European or international authorities in the coal-fired power plant sector,
- applies the reference international regulations and conventions in force which are set out in the appendix,
- uses a coal supply that respects the environmental and social criteria as described in the group’s sector policy – Mining sector,
- adheres to a credible policy to reduce its CO₂ gas emissions,
- adheres to regulation on social legislation guaranteeing employees working in coal-fired power plants minimum rights in line with those recommended by the International Labour Organization (ILO).

3.2 Banking operations with existing coal-fired plants undergoing an energy transition or companies operating in the coal-fired electricity generation sector, for which the group’s activity (revenues) is lower than or equal to 50%.

3.2.1 General rules for all banking operations

Companies operating in the coal-fired electricity generation sector that request to work with Crédit Mutuel Alliance Fédérale on financing, long/short-term investments, issuing of guarantees, international trade operations or other financial services, need to be able to satisfy the following conditions:
- Completion of an environmental impact review for each power plant: impact on biodiversity, treatment processes and reduction of emissions and effluents,
- Existence of a constant control and monitoring system for emissions and pollutant discharges (GHG emission values, water consumption, external controls, etc.),
- Satisfactory management of water resources,
- Existence of a plant optimisation or modernisation plan,
- Consideration of social impacts: prevention plan to protect employee health and safety, accident management plan in the event of contact with dangerous substances and dedicated reporting,
- Measurement of impacts on local populations in the close vicinity of power plants,
- Compliance with rules known as Equator Principles or those laid down by the World Bank,
- Respect of performance standards in terms of environmental and social sustainability, general environmental, health and safety regulations and those specific to power plants, as well as, depending on the project’s characteristics, those specific to mining operations, and those for the transport and distribution of electricity of the International Finance Corporation (member of the World Bank Group),
- Compliance with all the operating administrative authorisations,
- Economic rationality of the relevant power plants, i.e. they should respond to a strategic economic need: cutting-edge power plant operating as a backup for less polluting production tools, and/or base load power plant for which substitution by another less polluting solution is not feasible in the medium term for technical or budgetary sustainability reasons,
- Technical performance of power plants: the power plants concerned should have a high energy efficiency (ratio of net energy produced to energy consumed: minimum of 43% for OECD countries),
- Commitment from the company or project owner to reduce its activity in the coal-fired power plant sector (and at any rate below 50% of its revenues),
- Existence of complementary investment projects to optimise the efficiency of plants,
when necessary, and limit pollutant emissions or to convert a proportion of the production to biomass or even implement any another measure helping to meet the energy transition targets,

- Respect of the group’s sector policy on the mining sector for power plants’ coal supply chain.

3.2.2 Specific rules for granting project financing on existing power plants

Crédit Mutuel Alliance Fédérale may be called on by its corporate clients to restructure the financing of existing power plants or finance new investments on operating power plants. In addition to the general rules set out above, the group will ensure that at least the following two conditions are met in order to participate in financing these new investments:

- The power plants concerned are equipped with a cogeneration system (recovery of waste heat from the production process to fuel an urban heating network or industrial unit, such as a paper mill or sugar refinery) or equipped with a CO₂ capture and storage system,
- The investments to finance set out to:
  - Significantly reduce GHG emissions (CO₂), as well as sulphur dioxides and nitrogen oxides by using the highest performance technologies in the sector,
  - Improve the treatment of liquid effluents discharged by the power plant, mainly through the separation of effluents discharged by the power plant from polluted storm water and implementation of a specific treatment,
  - Significantly reduce the plant’s water consumption, mainly by installing air-cooling systems and, in particular, in regions where water resources are limited,
  - Optimise the efficiency of the power plant by a cogeneration system, reduce own consumption or optimise any other energy-saving devices,
  - Ensure in the short term, a conversion of the plant to a production method that completely or partially uses a renewable energy source (for example, local biomass),
  - Add an energy storage system designed to generate energy in a more cost-efficient manner and/or improve management of the electricity distribution network.

Compliance with the above conditions relating to new investments will have to be validated by technical due diligence entrusted to an accredited independent expert appointed on behalf of Crédit Mutuel Alliance Fédérale.

4 Means

Unless otherwise indicated, the data and information in this document pre-date its initial dissemination. To ensure compliance with the criteria and principles found in the “Sector policy-Coal-fired power plant sector” section above, the group can draw on the expertise, evaluations and/or information communicated by the various experts or external service providers selected with reasonable care, and may also use information communicated by the coal-fired power plant sector companies concerned.

APPENDIX

Main standards, conventions, initiatives or recommendations:

- United Nations Framework Convention on Climate Change (UNFCCC), complementary protocols adopted at this convention (notably the Kyoto protocol) and agreements ratified by certain countries (Copenhagen Treaty);
- The EU Emissions Trading Scheme (ETS);
- The BREF (Best available techniques Reference document) on Best Available Techniques (BAT), entitled “Large Combustion Plants” and “Energy Efficiency”;
- The GreenHouse Gas protocol of the WRI (World Resources Institute) and the WBCSD (World Business Council for Sustainable Development);
- The Carbon Disclosure Project;
- The World Bank Standards and notably the performance standards and environmental, health and safety guidelines and those for thermal power plants, for mining operations and for the transportation and distribution of electricity of the International Finance Corporation (IFC);
- Guidelines for financial services for the energy sector and coal-fired power plants of the French study centre for corporate social responsibility (Observatoire sur la Responsabilité Sociétale de l’Entreprise).