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Subject: Environmental, social and financial risks present in Australian fossil fuel developments

To _________,

Market Forces is an affiliate project of Friends of the Earth Australia and member of the international BankTrack network. We work with Australians to prevent finance and investment in environmentally damaging projects and to encourage investment in projects that protect and enhance the environment.

We are concerned about the expansion of the coal and gas export industries in Australia, and believe that investing in projects related to this proposed expansion would cause an array of serious environmental and social impacts, directly jeopardize the World Heritage status of the Great Barrier Reef, and undermine efforts to contain global warming to below the internationally agreed threshold of 2˚C above pre-industrial levels.

We understand that the _________ has a history of investing in fossil fuel projects in Australia. As lenders, we believe you should be made aware of the environmental, social and financial risks associated with such projects, particularly since these transactions could directly violate important Chinese banking policies and directives, particularly the Green Credit Directive.

Green Credit Directive – Issued by the China Banking Regulatory Commission in 2012:
The Green Credit Directive broadly defines the responsibility of Chinese banking institutions to "effectively identify, measure, monitor and control environmental and social risks associated with their credit activities". Environmental and social risks are defined as hazards which result from the "construction, production and operating activities of banking institutions' clients" which impact "pollution, land, health, safety, … ecological protection, [and] climate change".

Articles 16 and 17 particularly require banks to examine the environmental and social compliance records of clients, measure them against a set of environmental and social evaluation criteria, and to deny financing for clients that do not meet these criteria.

> Article 16: Banking institutions *shall examine the compliance of clients* to whom credit will be granted. As for environmental and social performance, *compliance checklist and compliance risk checklist shall be developed* according to the characteristics of different sectors, so as to ensure compliance, effectiveness and completeness of the documents submitted by the clients, and make sure they have paid enough attention to related risk points, performed effective dynamic control, and satisfied the requirements on substantial compliance.
>
> Article 17: Banking institutions shall strengthen credit approval management, and define reasonable level of credit granting authority and approval process according to the nature and severity of environmental and social risks faced by the clients. *Credits may not be granted to clients whose environmental and social performance fails to meet compliance requirements.* (italics added)

Several companies proposing major new coal export projects in Australia have social and environmental records that may be a cause for concern in light of Articles 16 and 17. According to a recent report,[i] Adani has a troubled environmental and social compliance track record, including illegal construction associated with one of its power stations in Mundra, India. Similarly, Adani's Special Economic Zone (SEZ) project in Gujarat, India has violated several environmental requirements; for example a high court in India found Adani guilty of illegally starting construction in the SEZ without obtaining proper environmental approval. The project has also destroyed mangrove forests, in violation of its environmental permit, which specified that no "existing mangroves shall be destroyed during construction/operation of project." In 2012 the government cancelled the SEZ project after an Indian Ministry of Commerce investigation which found that the company had "*deliberately concealed and falsified material facts*". The records of GVK and Jindal Steel also present significant issues that we outline in the annex, which may be concerning in light of articles 16 and 17.

Similarly, Articles 18 and 19 oblige banking institutions to include contractual clauses which require environmental and social risk reports, or otherwise face a suspension or termination of credit funds.

> Article 18: Banking institutions shall, by improving contract clauses, urge their clients to strengthen environmental and social risk management. As for clients involving major environmental and social risks, *the contract shall provide for clauses that require them to submit environmental and social risk report,* state and avow that they will strengthen environmental and social risk management, *and promise that they are willing to be supervised by the lender*; the *contract shall also provide for clauses concerning the remedies banking institutions can resort to in the event of default on environmental and social risks made by the clients.*
>
> Article 19: Banking institutions shall enhance credit funds disbursement management, and consider appropriation management, and regard how well clients have managed environmental and social risks as important basis for credit funds appropriation. *As for projects to which credit is granted, all stages, including design, preparation, construction, completion, operation and shutdown shall be subjected to environmental and social risk assessment. Where major risks or hazards are identified, credit funds appropriation can be suspended or even terminated.* (italics added)

Projects associated with the proposed expansion of the fossil fuel industry in Australia, particularly those based in Australia's Eastern States where exports would take place within the Great Barrier Reef World Heritage Area, contain an array of social and environmental risks that will require consideration under the Green Credit Directive.

For example, construction of the coal and gas facilities would lead to an array of **environmental hazards** due to dredging, industrialization of the coastline, flooding, water pollution, coal dust contaminating nearby agricultural land, and an increased likelihood of shipping accidents. These hazards extend to degrade the Great Barrier Reef World Heritage Area by accelerating coral destruction and threaten the region's rich biodiversity. Furthermore, the expansion of the fossil fuel industry would exacerbate climate change and push the world closer towards breaching the 2˚C limit of anthropogenic global warming agreed to in Copenhagen. The accuracy of environmental risk reporting is also under question, after it was alleged that GVK failed to disclose information they held about threatened migratory bird species present in the location of their proposed Terminal 3 coal export facility at Abbot Point.

In addition to environmental hazards, there are also significant **social risks** to local communities, who will be negatively impacted. For instance, landholders living along the proposed rail transport routes have voiced their dissatisfaction with the process of land access negotiations, which has left them feeling marginalized. Water scarcity has also emerged as a controversial matter as it would impact not only water supply to nearby communities, but would also affect water availability for other industries, putting the sustainability and economy of local communities at serious risk. The detrimental impact of temporary or transient workforces, known as fly-in, fly out or drive in, drive out workers on the social fabric of local communities is also becoming more widely understood in Australia.

Many of the major new coal mines in the Galilee Basin region of Queensland and their associated rail and ports infrastructure simultaneously entail **financial risks**, borne from both the existing poor coal market dynamics which you will no doubt be aware, as well as the reportedly fragile financial state of several companies pursuing major coal export projects. A recently released report from the Institute for Energy Economics and Financial Analysis (IEEFA)[ii] reveals some disturbing signs regarding the ongoing financial health of GVK, proponents of three Galilee Basin coal projects and Terminal 3 at Abbot Point. The report concludes that "GVK's Alpha project appears likely to remain *'stranded in the valley of death'*." Adani, current owners of the existing Abbot Point export coal terminal and proponents of the Carmichael coal mine in the Galilee Basin and several other export terminal facilities along Queensland's coast, also appears to be a highly leveraged company. Bloomberg data reveals a Debt / Equity Ratio of 338% for Adani. Public attention of Adani's growing debts and falling revenues is increasing, as investors begin to voice concerns over Adani's falling share value (which has dropped 35% in the past six months).[iii]

Because of these environmental, social, and financial risks, new fossil fuel extraction and export projects in Australia, especially the coal export projects proposed by GVK and Adani, appear to be poor candidates for Chinese bank credit. As referenced above, the Green Credit Directive requires the submission of accurate environmental and social risk reports for all stages of projects. It further states that "the contract shall also provide for clauses concerning the remedies banking institutions can resort to in the event of default on environmental and social risks made by clients….[and] where major risks or hazards are identified, credit funds appropriation can be suspended or even terminated." Given the array of risks carried by Adani and GVK's proposed projects, **we would like to respectfully inquire the steps _______ is prepared to take as required by the Green Credit Directive. In particular, what environmental and social criteria would _________ use to determine whether Adani and GVK would be eligible for financing; and what measures, if any, does the ___________ plan to implement in order to address environmental and social concerns?**

Furthermore, Article 21 of the Green Credit Directive explicitly requires banking institutions to strengthen their adherence to not only national laws and regulations, but to international practices when investing outside of China.

> Article 21: Banking institutions *shall strengthen the environmental and social risk management for overseas projects* to which credit will be granted *and make sure project sponsors abide by applicable laws and regulations* on environmental protection, land, health, safety, etc. of the country or jurisdiction where the project is located. *The banking institutions shall make promise in public that appropriate international practices or international norms will be followed as far as such overseas projects are concerned, so as to ensure alignment with good international practices*. (italics added)

As a World Heritage site, the Great Barrier Reef falls under the protection of the United Nations Educational, Scientific and Cultural Organization (UNESCO). On the 18th of June 2013, the World Heritage Committee (the Committee) passed a recommendation to consider adding the Great Barrier Reef to the 'World Heritage in Danger' list in 2014. This decision is the latest in a series of statements and decisions over that reflect serious concern held by the Committee over the health of the Great Barrier Reef World Heritage Area ("the Reef"). While UNESCO and the Committee have raised a range of management issues that address the preservation of the Reef, the rapid expansion of coastal industrialization – both current and proposed – is of primary concern. Although Australian government bodies certainly play a role in Reef conservation, Chinese bank loans to projects that lead to fossil fuel exports in the Reef are in effect worsening, if not disabling, conservation efforts by providing funds that are actively contributing to Reef destruction.

In addition to the World Heritage Centre, the International Coral Reef Initiative (ICRF), a partnership among governments, development banks, the World Bank, and other international organizations, have established international norms to conserve and promote the sustainable use of coral reefs. Due to severe threats to coral reef ecosystems, the ICRF upholds Chapter 17 of Agenda 21, an international covenant which stipulates that states should take action in order to protect and preserve rare and fragile coral reef systems.[iv] Central to the international covenant is its emphasis on integrating and strengthening sustainable development among coastal areas. Given the many international efforts to protect the Great Barrier Reef, **we would like to respectfully inquire what steps _________ would take to determine that this transaction complied with Article 21 of the Green Credit Directive**.

Violations of other environmental banking norms

Similarly, the Guidelines on Corporate Social Responsibility of Financial Institutions released by the China Banking Association in 2009 urges Chinese banks to consult the Equator Principles when considering environmentally risky project finance and loan evaluations for international transactions. The Guidelines advise Chinese financial institutions to "make a positive reference from the Equator Principles as applied to China's economic and financial development." In the spirit of the Equator Principles, the guidelines "advocate for independent on-site investigation and audit for the environmental impacts of financed projects, and make their judgments not solely based on client's own environmental impact assessment report and data".[v]

We believe that many of the proposed fossil fuel export projects in Australia, particularly those that result in impacts on the Great Barrier Reef, violate the Equator Principles[vi] on several levels. For example, the Equator Principles (under Performance Standard 6) require that in areas of critical habitat, the client will not implement any project activities unless all of the following are demonstrated:

- No other viable alternatives within the region exist for development of the project on modified or natural habitats that are not critical;
- The project does not lead to measurable adverse impacts on those biodiversity values for which the critical habitat was designated, and on the ecological processes supporting those biodiversity values;
- The project does not lead to a net reduction in the global and/or national/regional population of any Critically Endangered or Endangered species over a reasonable period of time; and
- A robust, appropriately designed, and long-term biodiversity monitoring and evaluation program is integrated into the client's management program.

As explained in the attached annex, we believe the fossil export projects proposed by GVK and Adani do not meet these standards.

In light of these guidelines, **we respectfully enquire as to what independent assessments ________ would seek to undertake, and the assurances that they would require from those assessments, prior to entering into an agreement to supply credit to a new fossil fuel export projects in Australia.**

For more information on the risks outlined in this letter, please see the attached annex with further details regarding the risks associated with new fossil fuel export projects in Australia, particularly those proposed by GVK and Adani. Given that the risks we present in this letter are both serious and numerous, we would be pleased to follow up this letter with further information, or meet at a time of your choosing in your Australian office.

We look forward to hearing from you.

Yours sincerely,

Julien Vincent	Yann Louvel
Lead Campaigner Market Forces	Climate and Energy Campaign Coordinator BankTrack

Annex

I. Environmental impacts of coal export supply chain projects in Queensland

Shipping

While shipping of large fossil fuel cargoes through a Marine Park and World Heritage site is inconsistent with the notion of valuing that site's natural beauty, the main risk to the Great Barrier Reef from shipping is through accidents.

Numerous shipping accidents occur within the Great Barrier Reef World Heritage Area each year, as documented by government agencies such as the Australian Transport Safety Bureau[vii] and Australian Maritime Safety Authority.[viii] The most publicized incident in recent years was the Shen Neng 1, which ran around on the Douglas Shoal in April 2010 with a near-capacity coal cargo. Grounded for nine days, the ship damaged a 290,000 m^3 area of coral reef[ix], causing long-lasting damage to the Reef given that bulk carriers use antifouling paint, designed to prevent the development of marine organisms.

Fortunately, even though the environmental damage was severe and permanent, the ship did not break up, contaminating the sea with cargo and fuel oil.

An increase in shipping can be expected to result in a corresponding increase in shipping accidents, especially as many accidents are the result of human error or failure, as was the case with the Shen Neng 1. The scale of shipping through the Great Barrier Reef is set to massively increase if proposals for new coal and gas export projects proceed. A forecast from industry and government predicts that the number of coal ships passing through the Great Barrier Reef World Heritage Area would increase four-fold between 2012 and 2032.[x]

Dredging

In order to build the proposed ports along the Great Barrier Reef coastline, millions of cubic metres of seabed would be dredged. The proposed terminals at Abbot Point alone would require 3 million cubic metres of as yet undisturbed sea floor to be dredged.[xi] Often this would take place in the foraging and breeding habitats of endangered species, such as the snub-nose dolphin and, at Abbot Point where there are multiple new terminal proposals, the endangered Olive Ridley and Loggerhead turtle.

There is significant contention regarding the dumping of dredge spoil at sea, as is currently proposed. Dredged material from the seabed poses a significant threat to corals, which require salty conditions to thrive. Ocean currents can disperse dredge spoil over a wide area, causing widespread risk to coral systems. Scientists are concerned that dredge spoil dumped at sea could have major impact on biodiversity, water quality and other users of the reef.[xii] In areas already exposed to industrial development, an additional risk is the disturbance of toxins that have accumulated in the sediment. This was evidenced at Gladstone, where the fishing industry was decimated after dredging operations to develop the liquefied natural gas plants on Curtis Island.

There is community concern, including from the fishing community, regarding proposals to dump dredged material at sea. They have voiced "great concern" about the impacts on their livelihoods of dumping dredge spoil between the proposed coal export port sites of Abbot Point and Dudgeon Point.[xiii] The community has proposed dumping dredged material on land, which would reduce the risk to the aquatic ecosystems that would be impacted by dumped dredge spoil, but increase the cost of dredging operations.

Industrialization of the coastline

There are currently no fewer than eight major coal export terminals proposed along the Queensland coastline at five separate locations. All of these proposed coal export terminals would require infrastructure to be constructed along the coastline, as well as inside the Great Barrier Reef World Heritage Area. This raises the risk of disruption to sensitive coastal environments and ecosystems.

Adani's proposed "T0" terminal at Abbot Point is a prime example, as it would be built over the Kaili Valley wetlands, home to several endangered bird species and just metres from a turtle nesting ground.[xiv]

The industrialization of the coastline along the Great Barrier Reef World Heritage Area is a matter of major concern for the World Heritage Committee (see below), and additional coal and gas port developments would very likely result in the Great Barrier Reef being placed on the "World Heritage in Danger" list.

Risk of construction and operation disruption due to flooding

In order to enable the transport of coal from the Galilee Basin to be exported out of the Queensland Eastern Seaboard, the coal would need to be railed approximately 500 kilometres from mine to port. The closest existing rail network is several hundred kilometres from the nearest proposed Galilee Basin coal mine, and every proposed option for the construction of a new rail line would see it constructed over floodplains.

Ironically, the effects of climate change are being felt in Queensland as much as in any other part of Australia. The past few years has seen "one on one hundred year" floods occur every other year, with the flooding of mines becoming a regular occurrence. This creates an additional environmental hazard as contaminated water is pumped from flooded mines into Queensland's waterways at the end of the wet season.

The risk of flooding delaying the construction and operation of rail infrastructure intended to enable coal exports is more of a likelihood but one that does not appear to be factored into the environmental impact statements of project proponents, who have based their climate data on material relevant to previous decades and not reflective of the altered state of the climate that is making severe flooding an almost annual occurrence.

Risk of contamination due to flooding and coal dust

In addition to the risk of delays to the construction and operation of a rail line due to flooding events that proponents appear unprepared for, the event of cargoes becoming stranded during flooding events presented threats to communities that rely on the land adjacent to rail lines. Many properties that the proposed rail line would either cut through or run adjacent to are used for cattle and livestock, or crop farming. The contamination of their properties with floodwater containing coal and its heavy metals and toxic elements would threaten their livelihoods and the health of their stock.

The risks of coal dust have been raised primarily by farmers whose land would be affected by railed coal cargoes passing through or adjacent to their land, particularly those involved in cattle grazing who are concerned about the hazards to their stock and the assimilation of toxic products into the food chain.

Removal of nature refuge

One particular coal mining proposal, the "China First" coal project owned by Waratah Coal, would involve the removal of 8000 hectares of the Bimblebox nature refuge, which is the habitat of the black-throated finch, amongst other endangered species.

II Negative Impacts of expanded coal and gas operations in the Great Barrier Reef World Heritage Area

This letter has already raised numerous social and environmental impacts that would result from expanding fossil fuel exports from Australia, many of which take place within the Reef. However, there is possibly no impact of fossil fuel export expansion in Australia more profound or internationally recognized than the damage to and decline of this iconic site of natural world heritage.

The United Nations Educational, Scientific and Cultural Organization (UNESCO) describes the Reef as follows:

> *"No other World Heritage property contains such biodiversity. This diversity, especially the endemic species, means the GBR is of enormous scientific and intrinsic importance, and it also contains a significant number of threatened species. At time of inscription, the IUCN evaluation stated "... if only one coral reef site in the world were to be chosen for the World Heritage List, the Great Barrier Reef is the site to be chosen"."*[xv]

The Reef's iconic status is widely recognized amongst Australians, 92% of whom consider its protection the most important environmental issue in 2013.[xvi] Despite this status and acclaim both in Australia and internationally, the Reef's Outstanding Universal Value (OUV) has significantly eroded in recent years.

The attention of UNESCO was first initially raised when Australia gave approval to a Liquefied Natural Gas plant and port facilities inside the World Heritage boundary. UNESCO wrote to Australia to express its "extreme concern" over this development and the health of the Reef, and requested a strategic assessment be undertaken that would enable a long-term plan to protect its OUV.[xvii]

UNESCO sent a reactive monitoring mission to Australia in March 2012 and upon their recommendations, the World Heritage Committee passed a series of recommendations at its 36th Session in June 2012, including that the Australian Government

> *"not permit any new port development or associated infrastructure outside of the existing and long-established major port areas within or adjoining the property, and to ensure that development is not permitted if it would impact individually or cumulatively on the Outstanding Universal Value of the property."*[xviii]

The Committee also recommended that no developments would be approved that would compromise the development of the strategic assessment, and requested a report from Australia by February 2013 on progress made towards adopting the recommendations. If satisfactory progress had not been made towards meeting the recommendations by the Committee's 38th session in 2015, consideration would be made to inscribing the site on the World Heritage in Danger list.

While Australia submitted its progress report to the Committee as requested, progress on the issue of restricting coastal development was clearly lacking. In June 2013, the World Heritage committee reiterated its recommendations, including that Australia:

> *halt the approval of coastal development projects that could individually or cumulatively impact on the property's OUV and compromise the ongoing Strategic Assessment*[xix]

The Committee also accelerated the timeframe for considering the property for inscription on the "in Danger" list to 2014, noting that no policy had been put in place to ensure such coastal developments would be halted.

The concern held by the Committee regarding the ongoing health of the Reef and preservation of its OUV is clearly escalating, as indicated by the increasing clarity in its recommendations and the accelerated timeframe for considering the Reef be placed on the "in Danger" list. It is clear that these concerns are being driven primarily by the threat of coastal industrialization.

This background and context is essential information for any party or institution considering investment in a project that would expand fossil fuel exports from Australia and further erode the health of the Reef. This issue will attract increasing public scrutiny, especially over the coming year as any further coastal development that would impact on the OUV of the Reef would directly threaten its World Heritage status.

III.Pushing the world closer to catastrophic climate change

Evidence and sentiment is mounting that a rapid change of direction for development is required if the world is going to avoid passing critical thresholds for containing climate change. In November 2011, IEA Chief Economist Fatih Birol said that the world had only five years in order to move off a fossil fuel pathway if catastrophic climate change is to be avoided.[xx]

Climate scientists have calculated that in order for the world to have an 80% chance of meeting the internationally agreed goal of global warming less than 2˚C above preindustrial levels, the remaining carbon budget is approximately 575 Gigatonnes of CO_2. However, the fossil fuels already held in known reserves by companies are currently five times that amount, meaning 80% of the currently held fossil fuel reserves cannot be burned if the planet's temperature is to have this chance of staying below 2˚C of warming.

If there is not enough room in the carbon budget for all of the currently held fossil fuel reserves to be burned, there is no argument to support the opening up of new fossil fuel extraction projects anywhere in the world. The prospects of allowing global warming to exceed 2˚C and trigger tipping points that magnify and accelerate the warming effect barely bear thinking about. As climate scientists tell us, we set the goal of avoiding 2˚C of warming in order to preserve a planet to which all humanity has adapted.

Climate change is an issue already affecting billions of people and it is in all peoples and all nations' interests to, at a minimum, keep the threat of increased global warming under our control.

IV. Social impacts of coal export supply chain projects in Queensland

Water scarcity

While this is clearly an issue of major environmental significance, the impact of mining in the Galilee Basin on water resources is a contentious issue. Plans last year to construct a dam to supply the Alpha Coal mine (the Connors River Dam) were scrapped, leaving the only feasible supply of dam water from the Fairbairn Dam, some several hundred kilometres south of the proposed mine site. However, no pipeline exists between the Fairbairn dam and the proposed mine site, while the costs of piping the water the required distance remain unclear.

It has recently emerged that the GVK-proposed "Kevin's Corner" mine, also in the Galilee Basin, would effectively be mining groundwater from the local area, posing both environmental threats to the health of the aquifer, which feeds Australia's Great Artesian Basin, but the availability of water for other industries.

The Queensland Coordinator-General's report[xxi] on the proposed mine says:

> "*Cumulative drawdown predictions (of the Kevin's Corner and Alpha Coal projects) identify a total of 28 landholder bores to be potentially 'at risk' of mine dewatering. Long-term (post-mining) predictions indicate that groundwater levels would not recover to pre-mining levels adjacent to the project, thus the groundwater resources would be 'mined' from the Permian Sandstone and permanently lost*"

And

> "*Potential future projects in the vicinity of the Kevin's Corner project include the Alpha Coal Project (Hancock Coal Pty Ltd), Galilee Coal Project (Waratah Coal Pty Ltd) and South Galilee Coal Project (AMCI Pty Ltd). If these proposed projects all proceed, it is anticipated that tributaries to the Burdekin Catchment would be dissected by mines along a strike length of approximately 100km*"

It is therefore apparent that the sourcing of water for Galilee Basin mines is, in addition to being a major financial issue, a risk to the viability of farms in the local vicinity.

V. Haphazard approvals processes

Finally, the approvals processes of several major projects associated with the proposed opening up of the Galilee Basin have shown evidence of flaws, mishandlings and political interference. We provide a few examples here for you to consider:

- The day prior to the Queensland Government approval of the Alpha Coal mine, representatives of Hancock Coal, a 21% owner of the project, were reportedly in the office of the Queensland Coordinator-General to 'discuss' proposed conditions, 48 hours before the report was due. The leaked email that revealed this also stated that Hancock Coal had a 'direct line to government'.[xxii]
- After the Queensland Coordinator-General approved the Alpha coal project, a dispute emerged between the Federal and Queensland Governments, as the Queensland Government had failed to take into account maters of national environmental significance, as had been previously agreed would happen in order to streamline the approval process. The then Federal Environment Minister Tony Burke described the Queensland Government's approval process as a "shambolic joke" and that the Queensland Government could not be trusted with the Great Barrier Reef.[xxiii]

- GVK's proposed Terminal 3 at Abbot Point, a key component of their Alpha Coal project, is the subject of allegations that false information was provided to the government during the environmental approvals process[xxiv]. Greenpeace claims that GVK failed to acknowledge that the Terminal 3 site would impact on the habitat of a threatened species of migratory bird, despite this information being known to the company 6 weeks prior to the approval request being lodged. The Federal Government is currently investigating the claim.

There has been ongoing dispute between Waratah Coal, Adani, GVK and the Queensland Government over the appropriate developers of the rail line and it's most suitable route.

VI. Corporate behavior

It is our understanding of the Green Credit Directive, in particular Articles 16-17, that the prior environmental and social performance of companies seeking overseas credit from Chinese institutions is a factor that determines whether credit will be provided.

We wish to draw your attention to a range of environmental and social management behaviour issues relating to entities either connected to or leading the development of new coal export projects in Queensland.

Adani's record on environmental and social performance, as well as general corporate behavior is likely to raise significant issues that would require consideration under the Green Credit Directive. These have been captured in a research briefing by Greenpeace[xxv] and include:

- The destruction of mangroves and other aspects of the intertidal environment at Mundra in the late 1990s, disrupting upon the livelihoods of local artisanal fisherman who relied on the coastal ecosystem's health.
- Government accusations of bribery over illegal exports of iron ore.
- Illegally constructing an intake channel on government and private land.
- Construction at Mundra took place prior to an environmental clearance being granted.
- Indian Ministry of Commerce investigated Adani after concerns that the company had "*deliberately concealed and falsified material facts"* when applying for a 1,840 hectare SEZ in Mundra.
- Attempts to build a coal mine in a tiger reserve.

More recently, Adani has been accused of avoiding import duties on coal imports[xxvi] and are currently in a dispute with local government after Adani sought to increase power prices to consumers in the district.[xxvii]

Both Adani and GVK have been implicated in the "Coalgate" scam, whereby the central government opted against a competitive bidding process to allocate coal blocks to companies at a greatly reduced rate with the intention of increasing India's domestic coal production.[xxviii] It has been estimated that the foregone revenue to the government from 'grandfathered' coal blocks amounts to 1.86 lahks crore[xxix] (approximately US $30.7 billion) while the assets were hoarded, only a few of the coal blocks actually being developed. Both GVK and Adani[xxx] have had their allocated coal blocks reviewed as a result of the investigation into "Coalgate", which has generated public outrage at the level of access and political influence held by companies receiving coal blocks without having to undergo a competitive and open bidding process, while failing to adequately develop the coal resources as intended by the government.

GVK, through one of their subsidiaries, have been criticized over a private contract to supply ambulance services in India, awarded in 2011.[xxxi] Again, the contract was awarded instead of a competitive bidding process and increases in costs have been estimated to have cost the state 100 crore (approximately US$16.6 million). This has given rise to a dispute between the state and GVK over fees, which has resulted in GVK's ambulances being left idle.[xxxii]

Jindal Steel has also been connected with Australian coal export projects. They do not appear to be taking as prominent a role as GVK or Adani but were an original partner in the Fitzroy Terminal, proposed by Mitchell Ports. Jindal Steel have been accused of human rights abuses in Mozambique,[xxxiii] while the company is alleged to have attacked several hundred villagers after they voiced concerns about their dislocation and lack of rehabilitation after a Jindal Steel project was built in the area .[xxxiv] Jindal Steel have also been implicated in the "Coalgate" scandal.[xxxv]

VII. Financial Risks associated with investing in GVK and Adani

Aside from the financial risks inherent to the environmental and social issues already raised in this letter, there are clear concerns regarding the financial health and viability of several major project proponents. The letter mentions the report by the Institute for Energy Economics and Financial Analysis and its conclusions. The report also found that:

- With a market equity capitalisation of only US$243m, GVK's primary company, GVK Power and Infrastructure Limited (GVKPIL), is carrying on-balance sheet net debt of US$2.8bn.
- GVKPIL's share price is at an all-time low and has underperformed the Indian index by 80% since 2010.
- GVK's earnings before interest and taxes are currently insufficient to service their debts.
- The likely cost per tonne of coal from GVK's project is upwards of $70/tonne, much higher than the $55/tonne often cited by GVK.

The risk profile of GVK's projects looks greater in light of the $874 million in environmental guarantees they will be required to the Queensland Government for their Alpha and Kevin's Corner Coal mine projects.[xxxvi]

Adani, current owners of the existing Abbot Point export coal terminal and proponents of the Carmichael coal mine in the Galilee Basin and several other export terminal facilities along Queensland's coast, also appears to be a highly leveraged company. Bloomberg data reveals a Debt / Equity Ratio of 338% for Adani. Public attention of Adani's growing debts and falling revenues is increasing, as investors begin to voice concerns over Adani's falling share value[xxxvii] (which has dropped 35% in the past six months) while in Australia there has been frustration over Adani's failure to pay its bills to local contractors.[xxxviii]

While individual companies such as GVK and Adani present numerous challenges and risks to investors, at a broader level there is growing acceptance that investments in fossil fuel developments are becoming increasingly risky, given their fundamental incompatibility with a world aiming to contain global warming to less than 2˚C above pre-industrial levels.

The notion of "unburnable carbon" is spreading throughout the investment community. The European Based Carbon Tracker group released a report in April this year saying that $674 billion was spent worldwide in 2012 developing potentially stranded assets: projects that are about extracting fossil fuels that cannot be burned if the 2˚C limit on warming is to be met.[xxxix]

Research by Citi suggests that many coal reserves could be devalued by half if decisive action on climate change is taken by 2020 and that if investors choose to bet that action on climate change is not taken, a far greater financial risk is present in the form of the impacts that climate change will bring.[xl] Standard and Poor's reach a similar conclusion while Deutsche Bank also believes that the trend in the coal market suggests a long-term depressed coal price that will further discourage investment.[xli]

It appears clear that on top of the significant risks facing the fossil fuel sector, especially projects geared towards export, the immediate impact of the weak market coupled with the long term incompatibility of the industry with a world striving to contain global warming, major new coal exporting projects from the Galilee Basin offer a range of company and project-specific risks that present issues institutions will need to consider carefully when approached to provide credit to these projects.

[i] http://www.greenpeace.org/australia/Global/australia/Adani%E2%80%99s%20record%20of%20environmental%20destruction%20and%20non-compliance%20with%20regulations.pdf
[ii] http://www.ieefa.org/report-stranded-alpha-coal-project-in-australias-galilee-basin/
[iii] http://www.business-standard.com/article/companies/investors-worried-how-long-adani-group-will-keep-its-head-above-water-113061400018_1.html#.UbqXNOUXQBU.twitter
[iv] http://www.icriforum.org/sites/default/files/agenda21cap17%5B1%5D.pdf
[v] http://www.internationalrivers.org/resources/china-banking-association%E2%80%99s-corporate-social-responsibility-guidelines-2506
[vi] http://www.equator-principles.com/index.php/ep3/ep3
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