INVESTOR BRIEFING

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Material risks associated with new liquefied natural gas (LNG) terminal in Bangladesh

Mitsui & Co., **Mitsubishi Corporation**, **JERA**, **Sumitomo Corporation** and **Chugoku Electric Power** are listed as bidders for the proposed onshore Matarbari LNG Terminal in Chattogram, on the southeastern coast of Bangladesh. The companies' involvement in the terminal could expose them, and in turn their shareholders, to financial risks. **We urge you to raise these risks with your investee companies as soon as possible.**

The Matarbari LNG Terminal's deadline for bidders to submit proposals has been postponed three times - from September 2022 to February 2023, then to August 2023, and now to December 2023. While the reasons behind the delays are not clear, this briefing outlines several critical reasons for bidders to reconsider the project:

- Investment risk due to 'dollar crisis' in Bangladesh
- Financial risks associated with the transition away from fossil fuels
- Physical risks posed by climate change.

Investment risk due to 'dollar crisis' in Bangladesh

Bangladesh is already struggling to pay for fuel imports, including LNG, due to a US dollar shortage.

Bangladesh's only existing LNG import infrastructure – two floating storage and regasification units (FSRUs) located in Moheshkhali, Chattogram – have reportedly "become a big financial burden and challenge for the government due to volatile pricing trends and capacity payments to the terminal owners." The Bangladeshi government is required to pay a US$454,000 per day capacity charge if the FSRUs are out of operation. Bangladesh is already struggling to ensure a stable supply of gas for power generation, and unable to afford expensive LNG imports.

As of 25 July 2023, the Bangladesh state energy agency responsible for LNG imports is looking to "borrow around US$500 million from the International Islamic Trade Finance Corporation (ITFC) at high interest to cover huge LNG import bills amid forex crunch." Future LNG imports through the proposed onshore Matarbari LNG Terminal would remain expensive, as analysts expect LNG prices to remain high.

NOTE: All dollar figures in USD unless otherwise stated.

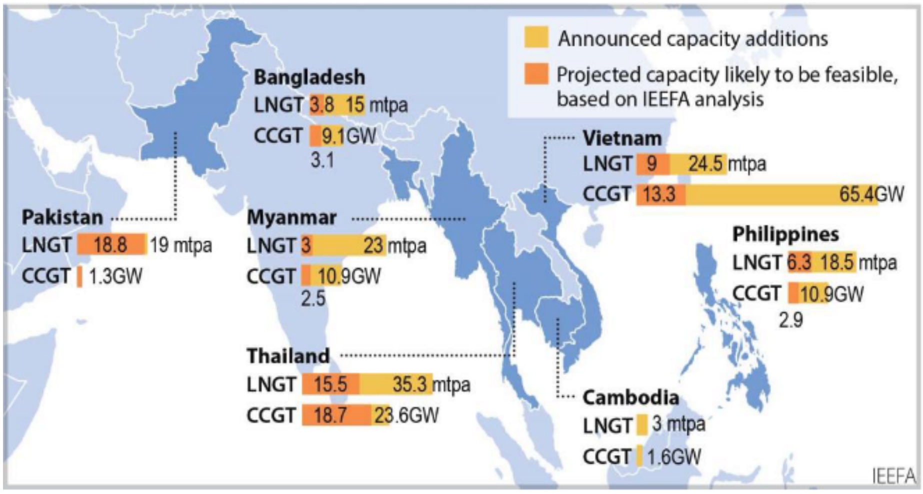
In this context, the need for – and therefore financial viability of – new LNG import capacity is highly questionable. Project developers and their investors risk failing to recoup construction costs.

Financial risks associated with the transition away from fossil fuels

Climate concerns have led the Bangladesh government to cancel fossil fuel power projects in recent years, including ten import-based coal power plants. Last year, a planned 3,600 megawatt (MW) LNG power plant slated to cost US$4 billion in Payra was dropped from the Bangladesh government's plans.

According to the Institute for Energy Economics and Financial Analysis (IEEFA), only 25% of proposed new LNG terminal capacity is feasible and 66% of Bangladesh's proposed gas power capacity is unlikely to be built. Power generation overcapacity and renewable energy deployment threatens utilisation of thermal power projects in Bangladesh. It is important to note this analysis was produced prior to the global energy crisis triggered by the Russian invasion of Ukraine, which has seen LNG prices skyrocket, and an even tighter and more volatile global gas market.

Likely feasibility of proposed LNG capacity additions in emerging Asia



IEEFA, Examining Cracks in Emerging Asia's LNG-to-Power Value Chain

The Institute for Sustainable Futures states Bangladesh has 100% renewable energy capability, and the US-based National Renewable Energy Lab (NREL) has found the country has potential for over 30,000 MW of wind power capacity. According to the Bangladesh government, the country also has potential for 40,000 MW of solar energy within 20 years. The wind and solar potential is more than double Bangladesh's existing power generation capacity. With utility-scale solar and wind becoming increasingly cost competitive to fossil fuel power generation, Bangladesh is already looking for cleaner alternatives to cut back on imported fossil fuel dependency.

The transition away from fossil fuels like LNG may result in significantly reduced revenues due to the Matarbari LNG Terminal operating at reduced capacity or even becoming stranded.

Physical risks posed by climate change

More than half of Bangladeshis live in areas deemed highly vulnerable to climate impacts. In a scenario where global warming is limited to 2°C, the entirety of Matarbari and coastal areas of Chattogram is projected to be inundated by 2050, demonstrating unacceptable risk to any physical infrastructure in the area, including the proposed onshore Matarbari LNG Terminal. A brand new LNG import terminal could lock-in Bangladesh to decades of dependency on imported, emissions-intensive fossil gas, which would further exacerbate the impacts of climate change.

In May, deadly cyclone Mocha made landfall in Bangladesh and Myanmar, claiming 145 lives and causing extensive damage affecting millions. Bangladesh’s only source of fossil gas imports, its existing floating LNG terminals, were closed due to cyclone Mocha, causing sweeping power cuts across the country.

This highlights the risk of investing in and building new LNG infrastructure in Bangladesh, which could face lower utilisation rates, early phase outs and cancellations as a result of worsening climate change impacts and policy and market shifts to address them.

Investor action required

Given the immense transition and physical risk of your investee companies’ potential involvement with the onshore Matarbari LNG Terminal, investors must engage with bidders to ensure they:

- **Reconsider involvement in the new LNG Terminal , and any other fossil fuel projects in Bangladesh given the unacceptable financial and reputational risks involved.**
- **Consider alternative options like clean, renewable energy projects instead.**

We urge investors to raise these concerns with Mitsui & Co., Mitsubishi Corporation, JERA, Sumitomo Corporation and Chugoku Electric Power. If you have any questions, please do not hesitate to contact munira@marketforces.org.au.