

22 Oct 2024

## Open Letter to JPX and Investors

### Governance Concerns at JERA: Neglecting Community Stakeholder Engagement

Dear JPX and Investors,

As we consider the potential of a future JERA initial public offering (IPO), it is crucial to evaluate the risks associated with this company's current operations and governance practices. While JERA has publicly stated its commitment to "proactive communication" and engagement with stakeholders as part of its corporate social responsibility, its failure to live up to this commitment suggests a troubling disconnect between the company's statements and actions. This inconsistency may present challenges for JPX and investors, including possible exposure to reputational risks.

A red flag for JPX and investors lies in JERA's approach to governance and stakeholder relations. Japan's Corporate Governance Code, which JERA must follow if it becomes a listed company on JPX, highlights the importance of effective stakeholder engagement for fostering long-term corporate value ensuring that "the rights and positions of stakeholders are respected." JERA appears to be disregarding this principle. Over the past year, JERA has rejected meeting requests from at least 10 civil society organisations and / or community stakeholders. These include requests from the following civil society groups and communities trying to raise concerns regarding JERA-backed projects:

- **Tiwi Traditional Owners (Indigenous communities from the Tiwi Islands, Australia)** who have opposed the Barossa gas project in Australia (JERA 12.5% equity owner), raising their concerns about potential impacts on the environment, marine life and culture.
- **Bangladesh Working Group on External Debt (BWGED), Dhoritri Rokhhay Amra (DHORA) and Coastal Livelihood and Environmental Action Network (CLEAN) in Bangladesh, working with communities** that will be impacted by the Matarbari Summit LNG power plant (JERA 22% equity owner of Summit Power International) and Matarbari LNG terminal (onshore) where JERA is a bidder. This new infrastructure would be situated in the region with the most extensive planned fossil fuel expansion in Bangladesh, a nation recognised as one of the most vulnerable to climate change impacts.
- **Texas Campaign for the Environment, Better Brazoria and Freeport Haven Project for Environmental Justice in Texas, USA concerned with Freeport LNG** (JERA 25.7% equity owner), where in June 2023, an explosion at the export terminal sent a fireball 450 feet in the sky and released roughly 120,000 cubic feet of LNG.
- **Local community members in Taketoyo Japan**, where the Taketoyo coal-biomass co-fired thermal power plant (JERA 100% equity owner) is located, who have raised safety concerns for residents as the plant has had numerous accidents including an

explosion this January. The residents claim JERA has not satisfactorily addressed these concerns.<sup>1</sup>

- **Civil society organisations in the Philippines concerned with Aboitiz Power Corporation** (JERA 27% equity owner) and its plans to expand fossil gas projects.

JERA's refusal to engage with these stakeholders suggests a broader trend of overlooking stakeholder dialogue and accountability, which may raise important considerations for investors. **Failure to engage with impacted communities violates the principles of sustainable, responsible corporate governance that global investors expect. It can create reputational risks as well as possible financial risks for JERA if the company continues to ignore the concerns of local communities and stakeholders.**

**Breaking Principles of Good Governance:** Japan's Corporate Governance Code emphasises that sustainable growth and mid to long-term value depend on contributions from stakeholders, including local communities. The code specifically highlights that "local communities form the foundation for the on-going business activities of companies." Boards and management teams must therefore foster a culture that respects stakeholders' rights and ensures sound business ethics. The JPX and investors should be concerned with JERA's persistent refusal to engage with stakeholders.

**Reputation Risk:** JERA's lack of engagement with community stakeholders poses a significant reputational risk, which should concern investors. Failure to engage local communities who are or will be facing the economic, environmental and social impacts of JERA's fossil fuel projects could lead to public backlash and opposition, litigation from affected communities, and negative media coverage. We already see this demonstrated in the public opposition to the Barossa project in Australia. This, in turn, may affect the company's shareholder value.

While JERA may claim confidentiality issues around specific projects as a reason not to engage, the company has provided no other accessible means for communities to raise legitimate economic, human rights, social and environmental concerns. Despite JERA's promises to establish human rights due diligence and reporting systems, as of September 2024, there is no visible mechanism for civil society or community groups to engage or submit their grievances. **As Japan's largest energy company with global projects, JERA should have transparent avenues for community dialogue.** Even if confidentiality is a concern, JERA can still listen to community feedback and address it internally.

Communities seek genuine responses to their concerns regarding JERA's projects, and authentic engagement and dialogue with JERA. Written responses that simply regurgitate policies or offer empty rhetoric are not genuine engagement.

**We encourage investors contemplating support of a potential JERA IPO to recognise that the company has failed to genuinely engage with the civil society and community groups mentioned above regarding its fossil fuel projects.**

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<sup>1</sup> JERA held a public information session in May and responded to questions on the explosion, but community members remained unsatisfied with the vague assurances about safety. In September, JERA [released](#) "Measures to Prevent Reoccurrence of the Fire," but no schedule for holding explanatory meetings for residents has been presented. Local community residents are concerned with JERA's measures and oppose restarting the plant.

**We request JPX and the investor community perform due diligence ahead of the potential IPO and urgently engage with JERA regarding the issues highlighted above.**

For more information, please contact [meg.fukuzawa@marketforces.org.au](mailto:meg.fukuzawa@marketforces.org.au).

Sincerely,

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