

24 January 2022

## Re: Urging the AIIB to Withdraw Proposed Financing for 1.4GW Gas Project and Pipeline in Thailand

Dear AIIB President Liqun and Members of the AIIB Board of Directors,

We are writing to collectively urge an immediate reconsideration of proposed financing for a new 1.4GW gas power project and 33km gas pipeline in Thailand ([Hin Kong Gas Fired IPP Project](#)). We are alarmed not only by the proposal for expanding large-scale fossil fuel dependent infrastructure in the Mekong region - at a time when communities are already positioned at the frontlines of the climate crisis - but also by the fact that with no clear evidence-based rationale for the project, the AIIB nevertheless appears willing to hasten approval of non-sovereign financing worth USD100 million (A loan) and syndicated loan participation of up to USD289 million (B loan) within the 1st Q of 2022.

As this is a Category A project, we would have expected the AIIB to undertake its own due diligence considerations of the track record of the project's sponsoring entity, Hin Kong Power Company, and proposed project plans within the current national and international energy, climate and pandemic related contexts. Below, we elaborate why deploying the AIIB's limited resources to facilitate the building of such an unnecessary, risky and resource intensive project lacks foresight – most especially given the urgent need to support borrowing member countries to rapidly scale up options for reliance on locally relevant, decentralized renewable energy.

### I. Background: Failing to Align with Climate, Economic and Energy Imperatives

Hin Kong Power Company is set up as a special purpose vehicle jointly shared by two Thai power sector conglomerates, RATCH Group and Gulf Energy Development PCL,<sup>1</sup> that proposed to build the Hin Kong Gas Power Project nearly two years ago (in early 2020). Project plans and rationales are therefore based on an outdated version of Thailand's Power Development Plan (PDP 2018), as opposed to the revised PDP of 2020 ([PDP 2018 Revi.1](#)). As explained by the [IEA in December 2020](#):

*With the global trend towards energy transition and renewable energy, Thailand has a broad set of policies to cost-effectively accelerate the uptake of cleaner energy....endorsed by the Cabinet in October 2020."*

In effect, by supporting this project, the AIIB would be impeding, rather than hastening, the shift to renewable energy infrastructure and a just transition in Thailand. As outlined

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<sup>1</sup> In light of AIIB's regard for its own "[ESG credentials](#)", please note that while RATCH Group has received a [high risk ESG rating by Sustainalytics](#), Gulf Energy has received a [severe risk ESG rating by Sustainalytics within 'the Global Universe'](#) of companies assessed. In addition, as assessed by MSCI in their most recent ESG ratings (November 2021), both companies involved are categorized as international climate-misaligned laggards: while "[RATCH Group Public Company Limited](#) has an Implied Temperature Rise of 3.50°C and is on track for warming that would impede global climate goals," "[Gulf Energy Development Public Company Limited](#) has an Implied Temperature Rise of over 4°C and is on track for warming that would contribute to a climate disaster".

by the [IEA](#) in December 2020, Thailand is prioritizing grid modernisation “in response to the rapid uptake of emerging technologies” and promoting “community-based power plants using local infrastructure and renewable energy resources, particularly biofuels in rural areas.”

Likewise, as indicated in the most recent [IEA Global Electricity Markets](#) analysis (July 2021), the Thai government is in the midst of considering revisions for the power development plan to reflect net zero commitments. Along with accompanying policies (such as the Alternative Energy Development Plan), this plan is expected to be forthcoming shortly, meaning that from the get-go, the project design and proposal would be out of line with the most up to date government policies.

Notably, this proposal also fails to consider the pledges that were made at COP26 in Glasgow, including by Thailand’s Prime Minister Prayut, who was [quoted](#) as saying that though Thailand has a goal to hit net zero emissions by 2065, “with adequate and equitable support for technology, finance, capacity building, as well as cooperation under the convention, I trust that Thailand can level up our GHG emissions reduction target (the mid-term target set by 2030) to 40%, which would then facilitate us to reach the net-zero emissions within 2050.”

Yet it is precisely such emerging national commitments being adopted by borrowing country members and evidence based climate science which proposed AIIB financing should stringently take into consideration.

## **II. Project Sponsors on Exclusion Lists of Several Global Asset Managers**

Notably, RATCH Group stock currently is excluded by [Robeco AM](#) (Dec 2021) [State Street Global Advisors](#) (Oct 2021), and [Storebrand](#), among other responsible global asset managers due to its poor social, environmental and human rights record. Likewise, Gulf Energy stocks are also on the exclusion lists of [Storebrand](#) as well as other international investors for similar reasons. Given the track record of the companies involved, supporting the Hin Kong Power Project would indicate a failure to duly heed indicative risks to human rights as well as other social, environmental, economic and climate considerations.

## **III. With Thailand’s Generation Overcapacity, No Realistic Project Rationale**

Alarmingly, there is no evidence that the project sponsor conducted any up-to-date comprehensive assessment of realistic power needs, demands, or options for ensuring better uptake of RE in the surrounding districts of the country. Instead, the reasoning for the project advanced by Hin Kong Power Company outlined in the [documents](#) posted on the AIIB’s website comes from the outdated assumption that the decommissioning of other amortized gas projects in the country in the coming years requires replacement by new large-scale fossil gas dependent infrastructure (i.e. the 1400MW Hin Kong IPP Project, sited at the location of the recently decommissioned 700MW Tri Energy Project).

Yet, as outlined by the [IEA](#) in December 2020:

*With the lower than expected demand growth in recent years (less than 3% annual growth), Thailand's power sector is facing the issue of generation overcapacity and a high reserve margin, which has been in the range of 40%. This situation is expected to become more prominent in the coming years due to the impact of Covid-19. A number of options are being considered... to allow for an effective utilisation of existing power plants in the system.*

It can only be concluded then that in fact there is no proven need for this project, leaving no economic, energy-related or socially prudent rationale at hand for the AIIB to provide support for the Hin Kong Gas Power IPP.

#### **IV. Undermining National, International and Institutional Climate Commitments**

If financing for the Hin Kong Power Project were to go forward as outlined on the AIIB's website, the reality is that it would undermine the AIIB's own stated institutional pursuit of Paris alignment and joint MDB climate commitments. According to analysis undertaken as part of the 2021 [IPCC Assessment Report 6](#) as well as by the IEA in their 2021 "[Net Zero by 2050 Roadmap](#)", ramping up construction for new fossil gas infrastructure at this scale is unequivocally incompatible with the action required to meet the Paris Agreement goals of limiting global heating to 1.5C. For instance, as outlined by the [IEA](#), a 'net zero by 2050' global trajectory would require large scale gas-fired generation to peak globally by 2030, becoming limited to 90% less of the 2020 power mix by 2040, and the electricity sector would need to be completely decarbonized by 2040 worldwide (pp 116-117).

Taken alongside Thailand's pledge towards carbon neutrality by 2050, a pathway towards significantly powering down gas operations would mean new large fossil gas projects such as the Hin Kong IPP (that would have a project lifespan beyond 2050) should simply not be built.<sup>2</sup>

#### **V. Questions of Transparency and Accountability**

Concerningly, the [project documents](#) suggest that due to the realities of the pandemic, in-person consultation schedules were - and will continue to be - scaled back. Given the barriers of online engagement for rural farming community residents in the area, it is not clear how project affected people would become fully aware of the involvement of the AIIB, as well as the associated option to avail of the AIIB's Project Affected Peoples Mechanism in situations where the client GRM is inaccessible or ineffective. This is most particularly a concern at a time when not only is the day-to-day movement and work of civil society groups highly restricted, but also local people face pressure to refrain from gathering to discuss different perspectives on the proposed project site.

A decision by the AIIB to boost the finances available for the construction of the Hin Kong gas project and pipeline in this context - before consultations can be thoroughly

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<sup>2</sup> In this regard, according to the Hin Kong project documents appended on the AIIB website ([Draft ESIA: 5-94](#)), project operations would require extraction of gas from offshore reserves and imports of LNG. Not only would this further undermine national and international climate ambitions, but the building of associated infrastructure (e.g. a new LNG terminal to accommodate imports) would also expose local people and surrounding environments to toxic effluent and airborne contaminants, cause serious environmental harm, and be expected to lead to exorbitant fuel cost hikes due to the international market volatility of LNG.

conducted - will lead to serious gaps in transparency and accountability. Indeed, if the project is built as proposed by the Hin Kong Power Company, it would inevitably incur severe and unnecessary health and environmental risks to surrounding areas.<sup>3</sup>

## **VI. Alarming Track Record of Project Sponsors In the Event of A Project Accident**

Finally, we note that RATCH has - and continues to - play the role of construction advisor and co-sponsor of the Xe Pian - Xe Namnoy Dam in Lao PDR, which [collapsed before becoming operational in July 2018](#), killing at least 49 people, leaving at least 22 missing and over 7000 riparian villagers without homes or land to cultivate. In addition, an estimated 8000 + additional people living downstream (including across the border in Cambodia), lost land and assets along the river banks. Over three years later, reparations, including provision of decent housing for those displaced, have yet to be provided by RATCH and the other project sponsors. Given this dubious track record of RATCH in relation to responding to an urgent project accident and repairing incurred damages in neighbouring Laos, people to be impacted by the Hin Kong pipeline and power project are rightfully left to wonder if they too would face a similar fate in case of a leak, spill or explosion.

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<sup>3</sup> According to the ESIA on the [AIIB's website](#), the sponsor has selected a pipeline route expected to enable the greatest accessibility for machinery during the initial construction period (1-24), facilitating the work of companies providing [engineering, procurement and operational \(EPC\) services](#), such as those publicly identified with the project, including Mitsubishi Power and Mitsubishi Heavy Industries (MHI). However, this means that "most of land uses along the project gas pipeline are agricultural lands, such as rice fields, casava [*sic.*] farms, sugar cane fields, and accommodations/villages," crossing in the vicinity of several schools, temples and public community areas (1-14; 1-24; 1-25). In addition, based on project plans outlined by the Hin Kong Power Company, diesel may be used as a back-up fuel if local gas shortages arise. Not only does the use of diesel take a heavy environmental and climate toll, but in the case of any accident, consequences for the local workers and communities could be devastating.

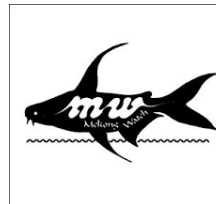
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We understand that the ADB was initially considering support for this project but [withdrew](#) as of late September 2021. It is with the above reasons in mind that we urge the AIIB Management and shareholder governments to similarly take the most prudent, forward-looking decision at this time, firmly withholding any support for a project that is mis-aligned with the climate, environmental, economic and social imperatives of today.

Sincerely,



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Consumer Rights Protection Center Ratchaburi Province

Association of Consumers Western Region

Association for Consumer Rights Protection Samut Songkram Province

Climate Change Action Network (CCAN)

Cc:

Martin L. Kummig, CRO, Risk Management Department  
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